

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Lake City	County Missaukee
Audit Date 3/31/06	Opinion Date 5/15/06	Date Accountant Report Submitted to State: 7/3/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

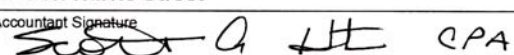
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.			
Street Address 134 W. Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 6/28/06	

CITY OF LAKE CITY, MICHIGAN

MARCH 31, 2006

REPORT OF EXAMINATION
CITY OF LAKE CITY, MICHIGAN
MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-x
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	1-2
Statement of Activities	3
Fund Financial Statements	
Governmental Funds	
Balance Sheet	4
Reconciliation of the Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	7
Proprietary Funds	
Balance Sheet	8-9
Reconciliation of the Balance Sheet of Proprietary Funds to the Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Fund Net Assets	11-14
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Assets to the Statement of Activities	15
Statement of Cash Flows	16-19
Fiduciary Funds	
Statement of Fiduciary Net Assets	20
Notes to Financial Statements	21-37
Required Supplementary Information	
Budgetary Comparison Schedule – Major Governmental Funds	38
Financial Statements of Individual Funds	
Major Governmental Funds	
<u>General Fund</u>	
Comparative Balance Sheet	39
Schedule of Revenues, Expenditures and Changes In Fund Balance - Budget and Actual	40
Analysis of Revenues - Budget and Actual	41
Analysis of Expenditures - Budget and Actual	42-45

REPORT OF EXAMINATION

CITY OF LAKE CITY, MICHIGAN

MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
<u>Major Street Fund</u>	
Comparative Balance Sheet	46
Schedule of Revenues, Expenditures and Changes In Fund Balance - Budget and Actual	47
<u>Local Street Fund</u>	
Comparative Balance Sheet	48
Schedule of Revenues, Expenditures and Changes In Fund Balance - Budget and Actual	49
Major Proprietary Funds	
<u>Water Fund</u>	
Comparative Balance Sheet	50
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets	51-52
Comparative Statement of Cash Flows	53-54
<u>Sewer Fund</u>	
Comparative Balance Sheet	55
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets	56-57
Comparative Statement of Cash Flows	58-59
Nonmajor Governmental Funds – By Fund Type	
Combining Balance Sheet	60
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	61
Nonmajor Special Revenue Funds	
Combining Balance Sheet	62
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	63
<u>Fire Fund</u>	
Comparative Balance Sheet	64
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	65
<u>Law Fund</u>	
Comparative Balance Sheet	66
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	67

REPORT OF EXAMINATION
CITY OF LAKE CITY, MICHIGAN
MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
<u>Cemetery Fund</u>	
Comparative Balance Sheet	68
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	69
Nonmajor Debt Service Funds	
Combining Balance Sheet	70
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	71
<u>Transportation Debt Retirement Fund</u>	
Comparative Balance Sheet	72
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	73
<u>1997 Sanitary Drain Debt Retirement Fund</u>	
Comparative Balance Sheet	74
Comparative Statement of Revenues, Expenditures and Changes In Fund Balance	75
Internal Service Funds	
<u>Equipment Fund</u>	
Comparative Balance Sheet	76
Comparative Statement of Revenues, Expenses and Changes in Fund Net Assets	77
Comparative Statement of Cash Flows	78
Agency Funds	
Combining Balance Sheet	79
Combining Statement of Changes in Assets and Liabilities	80
<u>Tax Collection Fund</u>	
Statement of Changes In Assets and Liabilities	81
<u>Payroll Fund</u>	
Statement of Changes in Assets and Liabilities	82
Component Units	
Combining Balance Sheet	83
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	84

REPORT OF EXAMINATION

CITY OF LAKE CITY, MICHIGAN
MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
<u>Downtown Development Authority Fund</u>	
Comparative Balance Sheet	85
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	86
<u>Downtown Development Authority 2000 Debt Retirement Fund</u>	
Comparative Balance Sheet	87
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	88
<u>OTHER INFORMATION</u>	
Downtown Development Series 2000 Bonds Payable	89

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CERTIFIED PUBLIC ACCOUNTANTS

May 15, 2006

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lake City, Michigan, management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City Michigan, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through x and 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake City, Michigan, basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2006

Management's Discussion and Analysis

The management of the City of Lake City, Michigan ("the City") offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2006. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity.

Financial Highlights

Government-Wide

- ❖ The assets of the City exceeded its liabilities at the close of this fiscal year by \$3,780,557 (shown as *Net Assets*), representing an increase of \$9,882 over the previous fiscal year. Governmental Funds represented a decrease of \$47, while Business-Type activities accounted for an increase of \$9,929.

Fund Level Financial Highlights

- ❖ As of March 31, 2006, the governmental funds of the City of Lake City reported combined ending fund balances of \$590,049, of which \$588,614 is unreserved and \$1,435 is reserved.

Long-Term Debt

- ❖ The City of Lake City is not obligated under any long-term debt as of March 31, 2006, other than the debt owed by the Component Unit.

Overview of the Financial Statements

The City of Lake City's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide financial statements, required by GASB 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire City's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net

CITY OF LAKE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. There are three (3) basic types of funds: governmental funds, proprietary funds and fiduciary funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Lake City uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY OF LAKE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Proprietary Funds Proprietary funds account for services for which the City charges its customers for the services they are provided. These charges can be to external customers or other agencies within the City. There are two types of proprietary funds:

- Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and the Sewer Fund.
- Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle and equipment fleet. The City has one internal service fund, which is the Equipment Fund.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs.

Component Units The City's Financial Report includes reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Downtown Development Authority and the Downtown Development Authority 2000 Debt Retirement Fund.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$3,780,557 at March 31, 2006, meaning that the City's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2006

comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

City of Lake City
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Current Assets	\$ 821,196	\$ 852,359	\$ 260,363	\$ 244,697	\$ 1,081,559	\$ 1,097,056
Restricted Assets	0	0	280,256	255,104	280,256	255,104
Non Current Assets						
Capital Assets	1,516,248	1,420,905	3,113,752	3,046,546	4,630,000	4,467,451
Less:						
Accumulated Depreciation	(812,649)	(756,229)	(1,321,319)	(1,251,205)	(2,133,968)	(2,007,434)
Total Non Current Assets	703,599	664,676	1,792,433	1,795,341	2,496,032	2,460,017
Total Assets	\$ 1,524,795	\$ 1,517,035	\$ 2,333,052	\$ 2,295,142	\$ 3,857,847	\$ 3,812,177
Liabilities						
Long-term liabilities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other liabilities	35,098	27,291	42,192	14,211	77,290	41,502
Total Liabilities	35,098	27,291	42,192	14,211	77,290	41,502
Net Assets						
Invested in capital assets	703,599	664,676	1,792,433	1,795,341	2,496,032	2,460,017
Restricted for Specific Purposes	0	0	280,256	255,104	280,256	255,104
Unrestricted	786,098	825,068	218,171	230,486	1,004,269	1,055,554
Total Net Assets	1,489,697	1,489,744	2,290,860	2,280,931	3,780,557	3,770,675
Total Liabilities and Net Assets	\$ 1,524,795	\$ 1,517,035	\$ 2,333,052	\$ 2,295,142	\$ 3,857,847	\$ 3,812,177

The most significant portion of the City's Net Assets are cash and the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has \$1,004,269 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by City policies regarding their use.

CITY OF LAKE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

The total net assets of the City increased \$9,882 in this fiscal year. Governmental type activities decreased by \$47, while Business-type activities increased by \$9,929. As a result, the City ended the fiscal year in better condition than when they began.

The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the Government-wide Statement of Activities.

City of Lake City
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 105,312	\$ 149,113	\$ 310,711	\$ 271,973	\$ 416,023	\$ 421,086
Operating Grants and Contributions	88,230	0	0	0	88,230	0
Capital Grants and Contributions	0	0	13,315	0	13,315	0
General Revenues						
Property Taxes	259,012	264,634	0	0	259,012	264,634
State Shared Revenue	85,725	175,676	0	0	85,725	175,676
Unrestricted Investment Earnings	3,728	2,396	13,472	1,647	17,200	4,043
Gain on Sales of Capital Assets	5,200	0	0	0	5,200	0
Other	11,240	14,573	224	15,479	11,464	30,052
Total Revenues	558,447	606,392	337,722	289,099	896,169	895,491
<u>Expenses</u>						
Legislative	16,809	16,684	0	0	16,809	16,684
General Government, Administrative	176,175	163,722	0	0	176,175	163,722
Public Safety	37,185	32,562	0	0	37,185	32,562
Public Works	216,967	264,970	0	0	216,967	264,970
Culture and Recreation	94,059	99,122	0	0	94,059	99,122
Debt Service	1	9,221	0	0	1	9,221
Water	0	0	149,015	120,436	149,015	120,436
Sewer	0	0	178,778	186,848	178,778	186,848
Intergovernmental Expenditures	13,315	0	0	0	13,315	0
Community and Economic Development	3,983	7,044	0	0	3,983	7,044
Total Expenses	558,494	593,325	327,793	307,284	886,287	900,609
Changes in Net Assets	(47)	13,067	9,929	(18,185)	9,882	(5,118)
NET ASSETS - Beginning of Year	1,489,744	1,476,677	2,280,931	2,299,116	3,770,675	3,775,793
NET ASSETS - End of Year	\$ 1,489,697	\$ 1,489,744	\$ 2,290,860	\$ 2,280,931	\$ 3,780,557	\$ 3,770,675

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2006

Governmental Activities

During the fiscal year ended March 31, 2006, the City's net assets decreased by \$47. The majority of this decrease represents the degree to which increases in ongoing expenses have outstripped similar increases in ongoing revenues. GASB 34 requires the City to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of the City of Lake City comes from property taxes. The City levied 12.52 mills for operating purposes. The City has designated the following: 8.59 mills for general operating; 1.48 mills for local street maintenance; 1.20 mills for fire protection; .50 mills for law enforcement; and .75 mills for cemetery maintenance.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2006, the amount of state shared revenue received by the City trended downward as a whole, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The City's governmental activities expenses are dominated by public works expenses that total 38.85% of total expenses. The City spent \$216,967 in fiscal year 2006 on public works expenses. General governmental represented the next largest expense at \$176,175 followed by recreation and culture at \$94,059.

Business-Type Activities

The City utilizes a Water Fund to account for its water operations. Revenue is collected from customers within the City. These charges for services totaled \$101,683 for 2006. Expenses for personal services represent the largest portion of the Water Fund expenses at \$37,276 followed by depreciation at \$23,209.

Water operations experienced a \$30,614 decrease in net assets.

The City utilizes a Sewer Fund to account for its sewer operations. Revenue is collected from customers within the City. These charges for services totaled \$192,067 for 2006. Expenses for personal services represent the largest portion of the Sewer Fund expenses at \$52,952 followed by depreciation at \$46,905.

Sewer operations experienced a \$36,497 increase in net assets

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2006

Financial Analysis of the Government's Funds

Governmental Activities The focus of the City of Lake City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$590,049. Essentially, this entire amount constitutes unreserved fund balance. Approximately, \$219,043 of the unreserved balance is designated for specific purposes by the City.

General Fund – The General Fund decreased its fund balance by \$77,894 which brings the fund balance to \$346,561. Of the General Fund's fund balance, \$345,454 is unreserved while \$1,107 is reserved for prepaid expenditures.

Major Street Fund – The Major Street Fund increased its fund balance by \$10,324 which brings the fund balance to \$71,611. A large portion of this balance is designated for street improvements.

Local Street Fund – The Local Street Fund increased its fund balance by \$13,719 which brings the balance to \$52,042. A large portion of this balance is designated for street improvements.

The City designated 1.48 mills of its operating levy for local street improvements. This generated \$30,085 in tax related revenues during the current fiscal year.

Proprietary Fund The City's proprietary funds provide the same information as the government-wide statements.

Water Fund – The Water Fund ended the fiscal year with a decrease in net assets of \$30,614. This is due largely to the deduction of depreciation expense on the Fund's capital assets. Net assets invested in capital assets increased by \$13,523.

Sewer Fund – The Sewer Fund ended the fiscal year with an increase in net assets of \$36,497. The unrestricted net assets increased \$28,053 and net assets invested in capital assets decreased by \$16,431.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of March 31, 2006 amounted to \$2,496,032 net of accumulated depreciation.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2006

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year.

City of Lake City
Capital Assets as of March 31, 2006

	Governmental		Business-Type		Total Primary
	Activities		Activities		Government
Land and Land Improvements	\$ 319,039	\$	0	\$	319,039
Construction in Progress	73,850		0		73,850
Buildings	206,078		0		206,078
Improvements Other than Buildings	13,500		2,890,915		2,904,415
Equipment, Furniture and Fixtures	375,234		222,837		598,071
Infrastructure	528,547		0		528,547
	<hr/> 1,516,248		<hr/> 3,113,752		<hr/> 4,630,000
Less Accumulated Depreciation	812,649		1,321,319		2,133,968
	<hr/>		<hr/>		<hr/>
Net Capital Assets	\$ 703,599	\$	1,792,433	\$	2,496,032

The City constructed a Performing Arts Stage during the 2005-2006 fiscal year.

Long-Term Debt. The City of Lake City currently has no long-term debt that the City is liable for.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues.

Factors such as this were considered in preparing the City's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the City of Lake City at 115 W. John Street, Lake City, Michigan 49651.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2006

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
<u>ASSETS</u>				
Cash	\$ 748,941	\$ 211,257	\$ 960,198	\$ 122,231
Receivables				
Taxes	36,200	0	36,200	8,159
Accounts	3,511	18,621	22,132	0
External Parties (Fiduciary Funds)	46	0	46	0
Due from Other Governments	29,868	0	29,868	6,064
Inventory	0	28,079	28,079	0
Prepaid Expenses	2,630	2,406	5,036	0
Total Current Assets	\$ 821,196	\$ 260,363	\$ 1,081,559	\$ 136,454
<u>RESTRICTED ASSETS</u>				
Cash	\$ 0	\$ 204,348	\$ 204,348	\$ 0
Special Assessment Receivable	0	75,908	75,908	0
Total Restricted Assets	\$ 0	\$ 280,256	\$ 280,256	\$ 0
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	\$ 319,039	\$ 0	\$ 319,039	\$ 630,538
Construction in Progress	73,850	0	73,850	0
Buildings	206,078	0	206,078	0
Improvements Other Than Buildings	13,500	2,890,915	2,904,415	0
Machinery and Equipment	375,234	222,837	598,071	0
Infrastructure	528,547	0	528,547	0
	\$ 1,516,248	\$ 3,113,752	\$ 4,630,000	\$ 630,538
Less Accumulated Depreciation	812,649	1,321,319	2,133,968	154,223
Net Capital Assets	\$ 703,599	\$ 1,792,433	\$ 2,496,032	\$ 476,315
TOTAL ASSETS	\$ 1,524,795	\$ 2,333,052	\$ 3,857,847	\$ 612,769

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2006

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	COMPONENT UNIT
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 17,298	\$ 44,625	\$ 61,923	\$ 0
External Parties Payable (Fiduciary Funds)	599	0	599	0
Internal Balances	6,537	(6,537)	0	0
Accrued Expenditures	3,943	4,104	8,047	0
Accrued Interest	0	0	0	641
Due to Other Governments	6,721	0	6,721	327
Current Portion of Long-Term Debt	0	0	0	20,000
Total Current Liabilities	\$ 35,098	\$ 42,192	\$ 77,290	\$ 20,968
<u>LONG-TERM LIABILITIES</u>				
Notes Payable	\$ 0	\$ 0	\$ 0	\$ 275,000
Less: Current Portion	0	0	0	(20,000)
Total Long-Term Liabilities	\$ 0	\$ 0	\$ 0	\$ 255,000
TOTAL LIABILITIES	\$ 35,098	\$ 42,192	\$ 77,290	\$ 275,968
<u>EQUITY</u>				
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 703,599	\$ 1,792,433	\$ 2,496,032	\$ 201,315
Restricted for Improvements	0	280,256	280,256	0
Unrestricted	786,098	218,171	1,004,269	135,486
TOTAL NET ASSETS	\$ 1,489,697	\$ 2,290,860	\$ 3,780,557	\$ 336,801
TOTAL LIABILITIES AND NET ASSETS	\$ 1,524,795	\$ 2,333,052	\$ 3,857,847	\$ 612,769

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNIT
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
PRIMARY GOVERNMENT								
GOVERNMENTAL ACTIVITIES								
Legislative	\$ 16,809	\$ 0	\$ 0	\$ 0	\$ (16,809)	\$ 0	\$ (16,809)	\$ 0
General Government, Administrative	176,175	21,328	0	0	(154,847)	0	(154,847)	0
Public Safety	37,185	0	2,323	0	(34,862)	0	(34,862)	0
Public Works	216,967	62,742	85,907	0	(68,318)	0	(68,318)	0
Community and Economic Development	3,983	1,570	0	0	(2,413)	0	(2,413)	0
Recreation and Culture	94,059	19,672	0	0	(74,387)	0	(74,387)	0
Intergovernmental Expenditures	13,315	0	0	0	(13,315)	0	(13,315)	0
Interest on Long-term Debt	1	0	0	0	(1)	0	(1)	0
Total Governmental Activities	\$ 558,494	\$ 105,312	\$ 88,230	\$ 0	\$ (364,952)	\$ 0	\$ (364,952)	\$ 0
BUSINESS-TYPE ACTIVITIES								
Water Fund	\$ 149,015	\$ 118,644	\$ 0	\$ 0	\$ 0	\$ (30,371)	\$ (30,371)	\$ 0
Sewer Fund	178,778	192,067	0	13,315	0	26,604	26,604	0
Total Business-Type Activities	\$ 327,793	\$ 310,711	\$ 0	\$ 13,315	\$ 0	\$ (3,767)	\$ (3,767)	\$ 0
TOTAL PRIMARY GOVERNMENT	\$ 886,287	\$ 416,023	\$ 88,230	\$ 13,315	\$ (364,952)	\$ (3,767)	\$ (368,719)	\$ 0
COMPONENT UNIT								
Downtown Development Authority	\$ 48,518	\$ 0	\$ 0		\$ 0	\$ 0	\$ 0	\$ (48,518)
GENERAL REVENUES								
Property Taxes					\$ 259,012	\$ 0	\$ 259,012	\$ 53,202
State Shared Revenue					85,725	0	85,725	0
Unrestricted Investment Earnings					3,728	13,472	17,200	583
Gain on Sale of Capital Assets					5,200	0	5,200	0
Other					11,240	224	11,464	0
Total General Revenues					\$ 364,905	\$ 13,696	\$ 378,601	\$ 53,785
Change in Net Assets					\$ (47)	\$ 9,929	\$ 9,882	\$ 5,267
NET ASSETS - Beginning of Year					1,489,744	2,280,931	3,770,675	331,534
NET ASSETS - End of Year					\$ 1,489,697	\$ 2,290,860	\$ 3,780,557	\$ 336,801

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	NON- MAJOR FUNDS	TOTALS
<u>ASSETS</u>					
Cash	\$ 343,023	\$ 60,095	\$ 39,596	\$ 106,494	\$ 549,208
Receivables					
Taxes	25,082	0	4,169	6,949	36,200
Accounts	3,511	0	0	0	3,511
Due from Other Funds	46	12	5,600	7,300	12,958
Due from Other Governments	11,931	13,024	4,913	0	29,868
Prepaid Expenditures	1,107	33	38	257	1,435
TOTAL ASSETS	\$ 384,700	\$ 73,164	\$ 54,316	\$ 121,000	\$ 633,180

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 12,618	\$ 678	\$ 1,952	\$ 697	\$ 15,945
Accrued Expenditures	2,897	218	218	294	3,627
Due to Other Funds	16,008	0	0	0	16,008
Due to Other Governments	6,064	657	0	0	6,721
Deferred Revenue	552	0	104	174	830
Total Liabilities	\$ 38,139	\$ 1,553	\$ 2,274	\$ 1,165	\$ 43,131

FUND BALANCE

Reserved for:					
Prepaid Expenditures	\$ 1,107	\$ 33	\$ 38	\$ 257	\$ 1,435
Unreserved:					
Designated for:					
Street Improvements	0	71,578	52,004	0	123,582
Fire Protection	0	0	0	49,594	49,594
Law Enforcement	0	0	0	45,867	45,867
Undesignated	345,454	0	0	24,117	369,571
Total Fund Balance	\$ 346,561	\$ 71,611	\$ 52,042	\$ 119,835	\$ 590,049

TOTAL LIABILITIES AND FUND BALANCE	\$ 384,700	\$ 73,164	\$ 54,316	\$ 121,000	\$ 633,180
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Fund Balances for Governmental Funds	\$ 590,049
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 19,500	
Land Improvements	299,539	
Buildings	206,078	
Improvements Other Than Buildings	13,500	
Machinery and Equipment	2,000	
Infrastructure	528,547	
Construction in Progress	73,850	
Accumulated Depreciation	<u>(551,783)</u>	591,231

Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds	830
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Internal service funds are used by management to charge costs of certain activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	<u>307,587</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,489,697</u></u>
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CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	NON-MAJOR FUNDS	TOTALS
<u>REVENUES</u>					
Taxes	\$ 182,663	\$ 0	\$ 30,085	\$ 64,748	\$ 277,496
Licenses and Permits	1,570	0	0	0	1,570
State Grants	85,725	58,826	27,081	2,323	173,955
Charges for Services	49,802	0	0	19,355	69,157
Interest and Rents	22,857	112	131	300	23,400
Other Revenue	11,240	0	0	0	11,240
Total Revenues	\$ 353,857	\$ 58,938	\$ 57,297	\$ 86,726	\$ 556,818
<u>EXPENDITURES</u>					
Legislative	\$ 16,809	\$ 0	\$ 0	\$ 0	\$ 16,809
General Government	136,906	0	0	39,375	176,281
Public Safety	0	0	0	36,758	36,758
Public Works	97,361	48,614	43,578	0	189,553
Community and Economic Development	8,441	0	0	0	8,441
Culture and Recreation	165,234	0	0	0	165,234
Intergovernmental Expenditures	0	0	0	13,315	13,315
Debt Service	0	0	0	1	1
Total Expenditures	\$ 424,751	\$ 48,614	\$ 43,578	\$ 89,449	\$ 606,392
Excess (Deficiency) of Revenues Over Expenditures	\$ (70,894)	\$ 10,324	\$ 13,719	\$ (2,723)	\$ (49,574)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In (Out)	(7,000)	0	0	7,000	0
Net Change in Fund Balance	\$ (77,894)	\$ 10,324	\$ 13,719	\$ 4,277	\$ (49,574)
<u>FUND BALANCES</u> - Beginning of Year	424,455	61,287	38,323	115,558	639,623
<u>FUND BALANCES</u> - End of Year	\$ 346,561	\$ 71,611	\$ 52,042	\$ 119,835	\$ 590,049

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ (49,574)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are allocated over their estimated useful lives and reported as depreciation in the statement of activities.

Depreciation Expense	(45,631)
Capital Outlay	73,850

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in personal property tax revenue deferred using the modified accrual method	(3,571)
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Internal service funds are used by management to charge costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported within the governmental activities.

24,879

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (47)</u>
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CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
BALANCE SHEET
MARCH 31, 2006

	<u>BUSINESS TYPE ACTIVITIES -</u> <u>ENTERPRISE FUNDS</u> <u>MAJOR FUNDS</u>	
	<u>WATER</u>	<u>SEWER</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 70,487	\$ 140,770
Accounts Receivable	6,325	12,296
Due from Other Funds	36	2,455
Inventory	28,079	0
Prepaid Expense	1,038	1,368
Total Current Assets	\$ 105,965	\$ 156,889
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	\$ 77,910	\$ 126,438
Special Assessments Receivable	9,941	65,967
Total Restricted Assets	\$ 87,851	\$ 192,405
<u>CAPITAL ASSETS</u>		
Improvements Other Than Buildings	\$ 1,129,802	\$ 1,761,113
Machinery and Equipment	0	222,837
	\$ 1,129,802	\$ 1,983,950
Less Accumulated Depreciation	515,468	805,851
Net Capital Assets	\$ 614,334	\$ 1,178,099
Total Noncurrent Assets	\$ 702,185	\$ 1,370,504
TOTAL ASSETS	\$ 808,150	\$ 1,527,393
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 40,355	\$ 4,270
Accrued Expenses	1,781	2,323
Total Current Liabilities	\$ 42,136	\$ 6,593
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 614,334	\$ 1,178,099
Restricted for Improvements	87,851	192,405
Unrestricted	63,829	150,296
Total Net Assets	\$ 766,014	\$ 1,520,800
TOTAL LIABILITIES AND NET ASSETS	\$ 808,150	\$ 1,527,393

The accompanying notes are an integral part of the financial statements.

TOTALS	INTERNAL SERVICE FUND
\$ 211,257	\$ 199,733
18,621	0
2,491	6
28,079	0
2,406	1,195
<u>\$ 262,854</u>	<u>\$ 200,934</u>
\$ 204,348	\$ 0
75,908	0
<u>\$ 280,256</u>	<u>\$ 0</u>
\$ 2,890,915	\$ 0
222,837	373,234
<u>\$ 3,113,752</u>	<u>\$ 373,234</u>
1,321,319	260,866
<u>\$ 1,792,433</u>	<u>\$ 112,368</u>
\$ 2,072,689	\$ 112,368
<u>\$ 2,335,543</u>	<u>\$ 313,302</u>
\$ 44,625	\$ 1,353
4,104	316
<u>\$ 48,729</u>	<u>\$ 1,669</u>
\$ 1,792,433	\$ 112,368
280,256	0
214,125	199,265
<u>\$ 2,286,814</u>	<u>\$ 311,633</u>
<u>\$ 2,335,543</u>	<u>\$ 313,302</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS

RECONCILIATION OF THE BALANCE SHEET OF PROPRIETARY FUNDS
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Net Assets - Total Proprietary Funds	\$ 2,286,814
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Amounts reported for proprietary activities in the statement of
net assets are different because:

Internal service funds are used by management to charge costs of
certain activities to individual funds. The assets and liabilities of the
internal service fund are allocated to governmental activities.

This creates an internal balance referred to as the crossover amount
which needs to be adjusted for.

4,046

NET ASSETS OF PROPRIETARY FUNDS	<u><u>\$ 2,290,860</u></u>
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CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED MARCH 31, 2006

	<u>BUSINESS TYPE ACTIVITIES -</u> <u>ENTERPRISE FUNDS</u> <u>MAJOR FUNDS</u>	
	<u>WATER FUND</u>	<u>SEWER FUND</u>
<u>OPERATING REVENUES</u>	\$ 118,644	\$ 192,067
<u>OPERATING EXPENSES</u>		
Personal Services	\$ 37,276	\$ 52,952
Contracted Services	7,790	3,196
Retirement	2,000	3,000
Health and Life Insurance	9,376	12,449
Uniforms	135	1,953
Supplies	7,306	921
Gasoline and Oil	0	0
Legal Advertisements	379	0
Audit	1,000	1,000
Utilities	25,162	20,325
Repairs and Maintenance	7,969	15,486
Laboratory Analysis	7,389	5,288
Equipment Rental	13,077	1,039
Insurance	8,186	10,302
Continuing Education	280	0
Dues	302	4,046
Miscellaneous	0	2,141
Depreciation	23,209	46,905
Total Operating Expenses	\$ 150,836	\$ 181,003
Operating Income (Loss)	\$ (32,192)	\$ 11,064

The accompanying notes are an integral part of the financial statements.

TOTALS		INTERNAL SERVICE FUND	
\$	310,711	\$	82,814
\$	90,228	\$	4,602
	10,986		0
	5,000		0
	21,825		1,508
	2,088		0
	8,227		519
	0		8,298
	379		0
	2,000		500
	45,487		0
	23,455		8,954
	12,677		0
	14,116		0
	18,488		10,062
	280		0
	4,348		0
	2,141		0
	70,114		26,189
\$	331,839	\$	60,632
\$	(21,128)	\$	22,182

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED MARCH 31, 2006

	<u>BUSINESS TYPE ACTIVITIES -</u>	
	<u>ENTERPRISE FUNDS</u>	
	<u>MAJOR FUNDS</u>	
	<u>WATER FUND</u>	<u>SEWER FUND</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Gain on Sale of Assets	\$ 0	\$ 0
Interest Revenue	1,248	1,302
Interest on Special Assessments	330	10,592
Other Revenue	0	224
Total Nonoperating Revenues (Expenses)	\$ 1,578	\$ 12,118
Income (Loss) Before Capital Contributions	\$ (30,614)	\$ 23,182
<u>CAPITAL CONTRIBUTIONS</u>		
Contributions from Local Units - Sewer Debt	\$ 0	\$ 13,315
Change in Net Assets	\$ (30,614)	\$ 36,497
<u>TOTAL NET ASSETS</u> - Beginning of Year	796,628	1,484,303
<u>TOTAL NET ASSETS</u> - End of Year	\$ 766,014	\$ 1,520,800

The accompanying notes are an integral part of the financial statements.

TOTALS	INTERNAL SERVICE FUND
\$ 0	\$ 5,200
2,550	1,542
10,922	0
224	0
\$ 13,696	\$ 6,742
\$ (7,432)	\$ 28,924
\$ 13,315	\$ 0
\$ 5,883	\$ 28,924
2,280,931	282,709
\$ 2,286,814	\$ 311,633

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

Net Change in Fund Net Assets - Total Proprietary Funds	\$ 5,883
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Amounts reported for proprietary activities in the statement of activities are different because:

Internal service funds are used by management to charge costs of certain activities to individual funds. The net revenue (expense) of internal service fund is reported with governmental type activities. This creates an internal balance referred to as the crossover amount that needs to be adjusted for.

	<u>4,046</u>
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CHANGE IN NET ASSETS OF PROPRIETARY FUNDS	<u><u>\$ 9,929</u></u>
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CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2006

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS MAJOR FUNDS	
	WATER FUND	SEWER FUND
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 118,608	\$ 212,028
Cash Received from Interfund Services Provided and Used	0	0
Cash Payments to Suppliers for Goods and Services	(50,093)	(83,043)
Cash Payments to Employees for Services	(36,513)	(52,290)
Other Operating Revenues	0	0
Net Cash Provided (Used) by Operating Activities	\$ 32,002	\$ 76,695
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (36,732)	\$ (30,474)
Proceeds from Sale of Capital Assets	0	0
Contributions from Local Units	0	13,315
Other Revenue Received	0	224
Collections of Special Assessments	613	24,677
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (36,119)	\$ 7,742
Cash Flows from Investing Activities:		
Interest Received	\$ 1,248	\$ 1,302
Interest on Special Assessments	330	10,592
Net Cash Provided (Used) by Investing Activities	\$ 1,578	\$ 11,894
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (2,539)	\$ 96,331
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	150,936	170,877
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 148,397	\$ 267,208

The accompanying notes are an integral part of the financial statements.

<u>TOTALS</u>	<u>INTERNAL SERVICE FUND</u>
\$ 330,636	\$ 0
0	82,780
(133,136)	(30,801)
(88,803)	(4,507)
0	28
<u>\$ 108,697</u>	<u>\$ 47,500</u>
\$ (67,206)	\$ (36,893)
0	5,200
13,315	0
224	0
25,290	0
<u>\$ (28,377)</u>	<u>\$ (31,693)</u>
\$ 2,550	\$ 1,542
10,922	0
<u>\$ 13,472</u>	<u>\$ 1,542</u>
\$ 93,792	\$ 17,349
321,813	182,384
<u>\$ 415,605</u>	<u>\$ 199,733</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2006

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS MAJOR FUNDS			
		WATER FUND	SEWER FUND
<hr/>			
Operating Income (Loss)	\$	(32,192)	\$ 11,064
<hr/>			
Adjustments to Reconcile Operating Income			
To Net Cash Provided by Operating Activities			
Depreciation	\$	23,209	\$ 46,905
(Increase) Decrease in Current Assets			
Accounts Receivable		617	(2,371)
Due from Other Funds		(36)	22,332
Inventory		4,553	0
Prepaid Expense		173	(75)
Increase (Decrease) in Current Liabilities			
Accounts Payable		34,915	(1,822)
Other Accrued Expenses		763	662
<hr/>			
Total Adjustments	\$	64,194	\$ 65,631
<hr/>			
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$	32,002	\$ 76,695
<hr/>			

The accompanying notes are an integral part of the financial statements.

<u>TOTALS</u>	<u>INTERNAL SERVICE FUND</u>
<u>\$ (21,128)</u>	<u>\$ 22,182</u>
\$ 70,114	\$ 26,189
(1,754)	0
22,296	(6)
4,553	0
98	34
33,093	(994)
1,425	95
<u>\$ 129,825</u>	<u>\$ 25,318</u>
<u>\$ 108,697</u>	<u>\$ 47,500</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2006

	<u>AGENCY</u>
<u>ASSETS</u>	
Cash	\$ 1,980
Due from Other Funds	599
Due from Other Governments	<u>327</u>
 TOTAL ASSETS	 \$ 2,906
 <u>LIABILITIES</u>	
Withholding Deductions and Accrued Expenses	\$ 1,600
Due to Other Governments	1,260
Due to Other Funds	<u>46</u>
 TOTAL LIABILITIES	 \$ 2,906
 <u>NET ASSETS</u>	 <u>0</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,906

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Lake City, Michigan, was incorporated under the laws of the State of Michigan and operates under an elected Mayor-Council form of government. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. Each blended and discretely presented component unit has a March 31 year end.

BLENDED COMPONENT UNITS

The City has no blended component units.

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority (DDA) – The DDA was established pursuant to the provisions of Act No. 197 of the Public Acts of Michigan 1975. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The Authority's operational and capital budgets must be approved by the City Council.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The City of Lake City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines.

The *Local Street Fund* receives all local street money paid to the city by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The City of Lake City reports the following major proprietary funds:

The *Water and Sewer Funds* account for the provision of water and sewer services to the residents of the City and certain adjacent areas. All activities related to such services are accounted for in the water and sewer system funds which are generally self-supporting. Primary financing is provided through user-charges.

Additionally the City of Lake City reports the following fund types:

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *debt service funds* account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *internal service funds* account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund, and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The City's investment policy conforms to state statutes.

The Investment policy of the City authorizes the following investments:

- a) Passbook Savings
- b) Negotiable Certificates of Deposit
- c) Nonnegotiable Certificates of Deposit
- d) Repurchase agreements backed by U.S. government or federal agency obligations.
- e) All bonds, securities and obligations of the United States or any of its agencies or instrumentality's
- f) Bankers acceptance of United States banks

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes are levied and due July 1, and become delinquent after September 14. County, Township and the balance of school taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. City property tax revenues are recognized when they become both measurable and available for use to finance City operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of the City of Lake City totaled \$22,990,884, on which ad valorem taxes levied consisted of 12.52 mills for the City of Lake City operating purposes. These levies raised approximately \$287,842 for operating purposes and a portion of these taxes levied were captured by the Downtown Development Authority

3. *Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of proprietary funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted Assets*

Certain proceeds of enterprise fund special assessment bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment	5-10

6. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

9. Comparative Data/Reclassifications

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the government's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Prior to March 31, the City Superintendent submits to the City Council a proposed operating budget for all governmental funds for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a budget ordinance. Budgets are submitted on a line-item basis but adopted by the Council on a major function basis.
4. All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.
5. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end. Budgeted amounts are as originally adopted, or as amended by the City Council from time to time throughout the year.
7. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. The City had no funds with expenditures in excess of appropriations for the year ended March 31, 2006.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City's deposits and investments are on deposit with Chemical Bank in Lake City, Michigan and Fifth Third Bank in Traverse City, Michigan.

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

Investment rate risk. The City will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the City's cash requirements.

Foreign currency risk. The City does not have a policy on this type of risk.

Credit risk. The City will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the City's investment policy; and pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the City will do business in accordance with the City's investment policy.

Concentration of credit risk. The City will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, \$374,701 of the City's bank balance of \$1,212,294 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date the discretely presented component unit's had exposure to custodial credit risk because \$22,231 of the bank balance of \$122,231 was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City currently has no investments.

A reconciliation of cash and investments follows:

	PRIMARY GOVERNMENT	COMPONENT UNITS
Cash on Hand	\$ 225	\$ 0
Carrying amount of Deposits	1,166,301	122,231
Total	<u>\$ 1,166,526</u>	<u>\$ 122,231</u>
Government-wide Statement of Net Assets		
Cash	\$ 960,198	\$ 122,231
Restricted Assets - Cash	204,348	0
Statement of Fiduciary Net Assets		
Cash	1,980	0
Total	<u>\$ 1,166,526</u>	<u>\$ 122,231</u>

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, internal service, and fiduciary funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	1997 Sanitary Debt	Water Fund	Sewer Fund	Nonmajor And Other Funds	Total
Receivables								
Taxes	\$ 25,082	\$ 0	\$ 4,169	\$ 0	\$ 0	\$ 0	\$ 6,949	\$ 36,200
Accounts	3,511	0	0	0	6,325	12,296	0	22,132
Special								
Assessments	0	0	0	0	9,941	65,967	0	75,908
Intergovernmental	11,931	13,024	4,913	0	0	0	0	29,868
Receivables	\$ 40,524	\$ 13,024	\$ 9,082	\$ 0	\$ 16,266	\$ 78,263	\$ 6,949	\$ 164,108

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Deferred Revenue		
	Unavailable	Unearned	Total
Delinquent property taxes receivable			
General Fund	\$ 552	\$ 0	\$ 552
Local Street Fund	104	0	104
Fire Fund	87	0	87
Law Fund	35	0	35
Cemetery Fund	52	0	52
	\$ 830	\$ 0	\$ 830

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 19,500	\$ 0	\$ 0	\$ 19,500
Construction in Progress	0	73,850	0	73,850
Total Capital Assets, Not Being Depreciated	\$ 19,500	\$ 73,850	\$ 0	\$ 93,350
Capital Assets, Being Depreciated				
Buildings	\$ 206,078	\$ 0	\$ 0	\$ 206,078
Improvements other than Buildings	13,500	0	0	13,500
Land Improvements	299,539	0	0	299,539
Machinery and Equipment	2,000	0	0	2,000
Infrastructure	528,547	0	0	528,547
Total capital assets, being depreciated	\$ 1,049,664	\$ 0	\$ 0	\$ 1,049,664
Less Accumulated Depreciation For:				
Buildings	\$ 118,634	\$ 3,401	\$ 0	\$ 122,035
Improvements other than buildings	1,317	900	0	2,217
Land Improvements	144,868	14,903	0	159,771
Machinery and Equipment	2,000	0	0	2,000
Infrastructure	239,333	26,427	0	265,760
Total Accumulated Depreciation	\$ 506,152	\$ 45,631	\$ 0	\$ 551,783
Total Capital Assets, Being Depreciated, Net	\$ 543,512	\$ (45,631)	\$ 0	\$ 497,881
Governmental Activities Capital Assets, Net	\$ 563,012	\$ 28,219	\$ 0	\$ 591,231
Internal Service Fund Net Capital Assets				112,368
Net Capital Assets per Statement of Net Assets				<u>\$ 703,599</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, being depreciated				
Improvements other than buildings	\$ 2,854,183	\$ 0	\$ 0	\$ 2,854,183
Machinery and Equipment	192,363	67,206	0	259,569
Total capital assets, being depreciated	\$ 3,046,546	\$ 67,206	\$ 0	\$ 3,113,752
Less accumulated depreciation for:				
Improvements other than buildings	\$ 1,124,195	\$ 58,431	\$ 0	\$ 1,182,626
Machinery and Equipment	127,010	11,683	0	138,693
Total accumulated depreciation	\$ 1,251,205	\$ 70,114	\$ 0	\$ 1,321,319
Total capital assets, being depreciated, net	\$ 1,795,341	\$ (2,908)	\$ 0	\$ 1,792,433
Business-type activities capital assets, net	\$ 1,795,341	\$ (2,908)	\$ 0	\$ 1,792,433

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 4,792
Public Safety	460
Public Works, including depreciation of general infrastructure assets	37,704
Recreation and Culture	2,675
Total depreciation expense - governmental activities	<u>\$ 45,631</u>

Business-type activities:

Water Fund	\$ 23,209
Sewer Fund	46,905
Total depreciation expense - business-type activities	<u>\$ 70,114</u>

Construction Commitments:

The City has an active construction project as of March 31, 2006. The construction project is for the amphitheatre. The total contract balance is approximately \$500 with \$73,850 being expended as of March 31, 2006.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Discretely Presented Component Units:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, being depreciated				
Improvements other than buildings	\$ 630,538	\$ 0	\$ 0	\$ 630,538
Less accumulated depreciation for:				
Improvements other than buildings	122,696	31,527	0	154,223
Total capital assets, being depreciated, net	\$ 507,842	\$ (31,527)	\$ 0	\$ 476,315

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 46	\$ 16,008
Major Street Fund	12	0
Local Street Fund	5,600	0
Fire Fund	3,738	0
Law Fund	1,418	0
Cemetery Fund	2,144	0
Equipment Fund	6	0
Water Fund	36	0
Sewer Fund	2,455	0
Tax Collection Fund	599	0
Payroll Fund	0	46
	<u>\$ 16,054</u>	<u>\$ 16,054</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at March 31, 2006, are expected to be repaid within one year.

The General Fund transferred \$7,000 into the Cemetery Fund during the fiscal year ended March 31, 2006.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006

funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-Term Debt

1. Primary Government

The City of Lake City does not have any debt outstanding at March 31, 2006.

2. Component Unit

The following is a summary of debt transactions of the City of Lake City's discretely presented component unit for the year ended March 31, 2006:

	REVENUE BONDS
Debt Payable at April 1, 2005	\$ 295,000
New Debt Incurred	0
Debt Retired	(20,000)
Debt Payable at March 31, 2006	\$ <u>275,000</u>

Debt payable at March 31, 2006, is comprised of the following issues:

\$350,000 Lake City Downtown Development Authority Bonds, bonds due in annual installments of \$20,000 to \$35,000 through May 1, 2015; interest at 5.35% to 5.75% due May 1, and November 1, of each year; this debt is serviced from tax revenues of the Lake City Downtown Development Authority with secondary security of the full faith and credit of the City

\$ 275,000

The annual requirements to amortize this debt as of March 31, 2006, are as follows:

YEAR ENDING MARCH 31,	COMPONENT UNIT
2007	
PRINCIPAL	\$ 20,000
INTEREST	14,851
TOTAL	\$ <u>34,851</u>
2008	
PRINCIPAL	\$ 20,000
INTEREST	13,776
TOTAL	\$ <u>33,776</u>
2009	
PRINCIPAL	\$ 25,000
INTEREST	12,554
TOTAL	\$ <u>37,554</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

2010		
PRINCIPAL	\$	25,000
INTEREST		11,185
TOTAL	\$	<u>36,185</u>
2011		
PRINCIPAL	\$	25,000
INTEREST		9,804
TOTAL	\$	<u>34,804</u>
2012-2016		
PRINCIPAL	\$	160,000
INTEREST		23,759
TOTAL	\$	<u>183,759</u>
GRAND TOTAL		
PRINCIPAL	\$	275,000
INTEREST		85,929
TOTAL	\$	<u><u>360,929</u></u>

G. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the City has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

NET ASSETS

Restricted

Water and Sewer Fund

Debt Service \$ 280,256

FUND BALANCE

Reserved

General Fund

Prepaid Expenditures \$ 1,107

Special Revenue Funds

Major Street Fund

Prepaid Expenditures \$ 33

Local Street Fund

Prepaid Expenditures 38

Cemetery Fund

Prepaid Expenditures 240

Law Fund

Prepaid Expenditures 17 328

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Component Units	
Downtown Development Authority 2000 Debt Retirement Fund	
Debt Service	<u>1,230</u>
TOTAL FUND BALANCE/NET RESERVES	\$ <u><u>2,665</u></u>
Unreserved-Designated	
Special Revenue Funds	
Major Street Fund	
Street Expenditures	\$ 71,578
Local Street Fund	
Street Expenditures	52,004
Fire Fund	
Fire Protection	49,594
Law Fund	
Law Enforcement	<u>45,867</u>
TOTAL FUND BALANCE DESIGNATIONS	\$ <u><u>219,043</u></u>

IV. OTHER INFORMATION

A. Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

B. Due from Other Governments

Amounts due from other governments consists of \$29,868 in state-shared revenues and other miscellaneous items.

C. Retirement Benefits

The City funds retirement benefits by making direct contributions to a SEP plan (Simplified Employee Pension). These accounts are the property of the employees and, therefore, are not treated as part of the City's reporting entity.

D. Component Unit Disclosures

The following presents the condensed financial statements for the discretely presented component unit.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Condensed Financial Statements - Discretely Presented Component Unit
Balance Sheet

	DOWNTOWN DEVELOPMENT AUTHORITY FUND
Assets	
Current Assets	\$ <u>137,684</u>
Liabilities	
Current Liabilities	\$ 1,557
Fund Balance	<u>136,127</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>137,684</u>

Statement of Revenues, Expenditures, and Changes in Fund Balance

	DOWNTOWN DEVELOPMENT AUTHORITY FUND
Revenues	\$ <u>54,731</u>
Expenditures	
Economic Development	\$ 1,120
Debt Service	35,915
Total Expenditures	\$ <u>37,035</u>
Excess of Revenues Over (Under) Expenditures	\$ <u>17,696</u>
Other Financing Sources (Uses)	
Transfers In	\$ 35,915
Transfers Out	<u>35,915</u>
Total Other Financing Sources (Uses)	\$ <u>0</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Sources (Uses)	\$ 17,696
Fund Balance - Beginning of Year	<u>118,431</u>
Fund Balance - End of Year	\$ <u>136,127</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

E. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The City carries commercial insurance for casualty, workers' disability compensation, employee health and accident insurance.

F. Lake Missaukee Area Fire Authority

The Lake Missaukee Area Fire Authority is a joint venture by and between the City of Lake City and the townships of Caldwell, Forest, Lake, Pioneer, and Reeder. This joint venture was created to provide fire protection for the listed governments. Each municipality pays as annual base amount equal to one-half of one mill of taxable value of the real property located in the areas of the municipality covered by this agreement. In addition, the City pays for each fire run within the City.

For the year ended March 31, 2006, the City contributed a total of \$11,239 to the Fire Authority, of which \$750 was for fire runs within the City.

The following financial information was taken from the Fire Authority's March 31, 2005 audited financial statements.

Total Assets	\$ 581,723
Total Liabilities	102,138
Investment in Capital Assets	560,976
Net Assets Invested in Capital Assets	
Net of Related Debt	460,976
Net Assets - Unrestricted	18,609
Total Revenues	126,373
Total Expenses	104,212
Change in Net Assets	22,161

The Lake Missaukee Area Fire Authority's total liabilities can be broken down as follows:

Accounts Payable	\$ 1,230
Payroll Liabilities	908
Loan Payable (Long-term)	100,000

A copy of these audited financial statements may be obtained upon request from the Fire Authority Treasurer.

CITY OF LAKE CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 178,693	\$ 182,000	\$ 182,663	\$ 0	\$ 0	\$ 0	\$ 29,045	\$ 29,045	\$ 30,085
Licenses and Permits	1,500	970	1,570	0	0	0	0	0	0
State Grants	85,000	80,000	85,725	65,000	60,000	58,826	28,000	28,000	27,081
Charges for Services	42,000	42,000	49,802	12,500	5,940	0	6,500	0	0
Interest and Rents	22,500	20,200	22,857	100	100	112	100	100	131
Other Revenue	16,700	11,200	11,240	600	0	0	0	0	0
Total Revenues	\$ 346,393	\$ 336,370	\$ 353,857	\$ 78,200	\$ 66,040	\$ 58,938	\$ 63,645	\$ 57,145	\$ 57,297
<u>EXPENDITURES</u>									
Legislative	\$ 18,950	\$ 18,100	\$ 16,809	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government	131,308	138,805	136,906	0	0	0	0	0	0
Public Works	87,396	97,445	97,361	53,440	50,575	48,614	56,351	45,530	43,578
Community and Economic Development	9,175	7,735	8,441	0	0	0	0	0	0
Culture and Recreation	173,269	171,960	165,234	0	0	0	0	0	0
Total Expenditures	\$ 420,098	\$ 434,045	\$ 424,751	\$ 53,440	\$ 50,575	\$ 48,614	\$ 56,351	\$ 45,530	\$ 43,578
Excess (Deficiency) of Revenues Over Expenditures	\$ (73,705)	\$ (97,675)	\$ (70,894)	\$ 24,760	\$ 15,465	\$ 10,324	\$ 7,294	\$ 11,615	\$ 13,719
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In (Out)	0	(7,000)	(7,000)	0	0	0	0	0	0
Net Change in Fund Balance	\$ (73,705)	\$ (104,675)	\$ (77,894)	\$ 24,760	\$ 15,465	\$ 10,324	\$ 7,294	\$ 11,615	\$ 13,719
<u>FUND BALANCE</u> - Beginning of Year	424,455	424,455	424,455	61,287	61,287	61,287	38,323	38,323	38,323
<u>FUND BALANCE</u> - End of Year	\$ 350,750	\$ 319,780	\$ 346,561	\$ 86,047	\$ 76,752	\$ 71,611	\$ 45,617	\$ 49,938	\$ 52,042

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund is the operating fund of the City. It is used to account for the resources devoted to finance the services traditionally associated with local government, except those activities that are required to be accounted for in another fund. Transactions are recorded on the modified accrual basis.

MAJOR STREET FUND

The Major Street Fund accounts for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines.

LOCAL STREET FUND

The Local Street Fund receives all local street money paid to the City by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

ASSETS

	<u>2006</u>	<u>2005</u>
Cash	\$ 343,023	\$ 407,438
Accounts Receivable	3,511	3,848
Taxes Receivable	25,082	28,671
Due from Other Funds	46	2,710
Due from Other Governments	11,931	11,068
Prepaid Expenditures	<u>1,107</u>	<u>1,290</u>
 TOTAL ASSETS	 <u><u>\$ 384,700</u></u>	 <u><u>\$ 455,025</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 12,618	\$ 14,727
Accrued Expenditures	2,897	3,365
Due to Other Funds	16,008	9,485
Due to Other Governments	6,064	0
Deferred Revenue	<u>552</u>	<u>2,993</u>

Total Liabilities	<u>\$ 38,139</u>	<u>\$ 30,570</u>
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FUND BALANCE

Reserved for Prepaid Expenditures	\$ 1,107	\$ 1,290
Unreserved	<u>345,454</u>	<u>423,165</u>

Total Fund Balance	<u>\$ 346,561</u>	<u>\$ 424,455</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 384,700</u></u>	<u><u>\$ 455,025</u></u>
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CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 182,000	\$ 182,663	\$ 180,098
Licenses and Permits	970	1,570	1,519
State Grants	80,000	85,725	87,182
Charges for Services	42,000	49,802	44,287
Interest and Rents	20,200	22,857	24,784
Other Revenue	11,200	11,240	12,278
Total Revenues	\$ 336,370	\$ 353,857	\$ 350,148
<u>EXPENDITURES</u>			
Legislative	\$ 18,100	\$ 16,809	\$ 16,684
General Government			
Elections	1,145	1,501	2,635
Independent Accounting and Audit	6,980	6,950	6,350
Assessor	15,100	14,939	13,973
Clerk	22,950	22,865	24,547
Treasurer	13,450	13,158	22,118
Buildings and Grounds	64,080	65,195	50,955
Other Functions	15,100	12,298	2,376
Public Works	97,445	97,361	90,346
Community and Economic Development	7,735	8,441	7,044
Culture and Recreation	171,960	165,234	100,323
Total Expenditures	\$ 434,045	\$ 424,751	\$ 337,351
Excess (Deficiency) of Revenues Over Expenditures	\$ (97,675)	\$ (70,894)	\$ 12,797
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	\$ (7,000)	\$ (7,000)	\$ 0
Net Change in Fund Balance	\$ (104,675)	\$ (77,894)	\$ 12,797
<u>FUND BALANCE</u> - Beginning of Year	424,455	424,455	411,658
<u>FUND BALANCE</u> - End of Year	\$ 319,780	\$ 346,561	\$ 424,455

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF REVENUES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>TAXES</u>			
Current and Delinquent Taxes	\$ 172,000	\$ 172,301	\$ 170,385
Property Tax Administration Fee	10,000	10,362	9,713
Total Taxes	\$ 182,000	\$ 182,663	\$ 180,098
<u>LICENSES AND PERMITS</u>			
Building and Zoning Permits	\$ 970	\$ 1,570	\$ 1,519
<u>STATE GRANTS</u>			
Sales and Use Tax	\$ 80,000	\$ 82,040	\$ 83,059
Telecommunications Right of Way Maintenance	0	3,685	4,123
Total State Grants	\$ 80,000	\$ 85,725	\$ 87,182
<u>CHARGES FOR SERVICES</u>			
Refuse Collection	\$ 42,000	\$ 47,829	\$ 42,339
Summer Tax Collection	0	1,973	1,948
Total Charges for Services	\$ 42,000	\$ 49,802	\$ 44,287
<u>INTEREST AND RENTS</u>			
Interest	\$ 600	\$ 3,185	\$ 1,936
Maple Grove Rent	19,600	19,672	22,848
Total Interest and Rents	\$ 20,200	\$ 22,857	\$ 24,784
<u>OTHER REVENUE</u>			
Franchise Fees	\$ 7,200	\$ 6,677	\$ 8,374
Other Revenue	4,000	4,563	3,904
Total Other Revenue	\$ 11,200	\$ 11,240	\$ 12,278
TOTAL REVENUES	\$ 336,370	\$ 353,857	\$ 350,148

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>LEGISLATIVE</u>			
Mayor and City Council			
Personal Services	\$ 16,800	\$ 15,851	\$ 15,129
Continuing Education	100	0	69
Supplies	400	452	70
Dues	700	0	742
Miscellaneous	100	506	674
	<u>\$ 18,100</u>	<u>\$ 16,809</u>	<u>\$ 16,684</u>
<u>GENERAL GOVERNMENT</u>			
Elections			
Personal Services	\$ 270	\$ 184	\$ 2,481
Supplies	775	1,186	14
Miscellaneous	100	131	140
	<u>\$ 1,145</u>	<u>\$ 1,501</u>	<u>\$ 2,635</u>
Independent Audit			
Audit Fees	\$ 6,980	\$ 6,950	\$ 6,350
Assessor			
Supplies	\$ 100	\$ 0	\$ 13
Contracted Services	15,000	14,939	13,960
	<u>\$ 15,100</u>	<u>\$ 14,939</u>	<u>\$ 13,973</u>
Clerk			
Personal Services	\$ 14,400	\$ 13,508	\$ 13,963
Supplies	3,000	3,056	3,129
Contracted Services	2,500	3,621	2,982
Legal Advertisements	3,000	2,020	3,339
Utilities	0	301	246
Telephone	0	0	225
Miscellaneous	50	359	65
Capital Outlay	0	0	598
	<u>\$ 22,950</u>	<u>\$ 22,865</u>	<u>\$ 24,547</u>

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Treasurer			
Personal Services	\$ 7,200	\$ 5,413	\$ 13,963
Supplies	2,200	2,878	4,277
Contracted Services	4,000	4,545	2,772
Utilities	0	0	21
Miscellaneous	50	322	356
Continued Education	0	0	131
Capital Outlay	0	0	598
	<u>\$ 13,450</u>	<u>\$ 13,158</u>	<u>\$ 22,118</u>
Buildings and Grounds			
Personal Services	\$ 15,430	\$ 18,216	\$ 15,193
Health and Life Insurance	5,400	5,234	4,665
Insurance	4,200	3,677	4,231
Supplies	3,000	2,515	4,413
Utilities	5,000	5,633	4,930
Telephone	1,900	1,674	1,869
Contracted Services	7,500	9,742	9,692
Dues	100	0	0
Repairs and Maintenance	16,000	13,095	2,063
Equipment Rental	3,000	2,554	1,869
Retirement	2,500	2,500	2,000
Miscellaneous	50	355	30
	<u>\$ 64,080</u>	<u>\$ 65,195</u>	<u>\$ 50,955</u>
Other Functions			
Personal Services	\$ 9,000	\$ 5,864	\$ 388
Health and Life Insurance	1,300	1,220	0
Insurance	400	338	0
Supplies	100	26	0
Contracted Services	3,700	3,200	1,000
Dues	0	668	0
Miscellaneous	600	982	988
	<u>\$ 15,100</u>	<u>\$ 12,298</u>	<u>\$ 2,376</u>

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>PUBLIC WORKS</u>			
Street Lighting	\$ 15,500	\$ 14,132	\$ 15,455
Sanitation			
Personal Services	\$ 16,900	\$ 16,951	\$ 14,884
Health and Life Insurance	2,900	2,862	2,052
Contracted Services	49,000	50,217	47,701
Legal Advertisements	50	31	0
Supplies	2,000	2,015	1,231
Equipment Rental	10,500	10,433	8,852
Utilities	0	0	45
Repairs and Maintenance	400	269	0
Insurance	145	451	126
Miscellaneous	50	0	0
	<u>\$ 81,945</u>	<u>\$ 83,229</u>	<u>\$ 74,891</u>
<u>COMMUNITY AND ECONOMIC DEVELOPMENT</u>			
Planning and Zoning			
Personal Services	\$ 6,185	\$ 6,235	\$ 6,138
Supplies	1,300	2,034	23
Contracted Services	100	0	883
Legal Advertisements	100	20	0
Dues and Miscellaneous	50	152	0
	<u>\$ 7,735</u>	<u>\$ 8,441</u>	<u>\$ 7,044</u>
<u>CULTURE AND RECREATION</u>			
Parks and Recreation			
Personal Services	\$ 31,000	\$ 29,807	\$ 35,488
Health and Life Insurance	12,000	11,727	8,216
Legal Advertisements	100	0	265
Retirement	2,500	2,500	2,000
Uniforms	400	242	177
Insurance	60	787	421

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Supplies	1,500	905	4,162
Contracted Services	11,000	12,631	11,276
Utilities	7,000	7,974	7,178
Telephone	600	511	556
Repairs and Maintenance	7,500	8,051	14,662
Equipment Rentals	15,500	15,555	15,068
Capital Outlay	82,000	73,850	0
Dues and Miscellaneous	800	694	854
	<u>\$ 171,960</u>	<u>\$ 165,234</u>	<u>\$ 100,323</u>
 Total Expenditures	 \$ 434,045	 \$ 424,751	 \$ 337,351
 <u>OTHER FINANCING USES</u>			
Transfers Out			
Cemetery Fund	<u>7,000</u>	<u>7,000</u>	<u>0</u>
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 <u><u>\$ 441,045</u></u>	 <u><u>\$ 431,751</u></u>	 <u><u>\$ 337,351</u></u>

CITY OF LAKE CITY, MICHIGAN

MAJOR STREET FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 60,095	\$ 45,950
Due from Other Funds	12	4,895
Due from Other Governments	13,024	12,368
Prepaid Expenditures	33	41
TOTAL ASSETS	<u>\$ 73,164</u>	<u>\$ 63,254</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 678	\$ 1,267
Accrued Expenditures	218	218
Due to Other Funds	0	482
Due to Other Governments	657	0
Total Liabilities	<u>\$ 1,553</u>	<u>\$ 1,967</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 33	\$ 41
Unreserved		
Designated for Street Improvements	71,578	61,246
Total Fund Balance	<u>\$ 71,611</u>	<u>\$ 61,287</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 73,164</u>	<u>\$ 63,254</u>

CITY OF LAKE CITY, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
State Grants	\$ 60,000	\$ 58,826	\$ 57,100
Charges for Services	5,940	0	0
Interest	100	112	62
Total Revenues	<u>\$ 66,040</u>	<u>\$ 58,938</u>	<u>\$ 57,162</u>
<u>EXPENDITURES</u>			
Public Works			
Personal Services	\$ 9,400	\$ 8,627	\$ 6,654
Health and Life Insurance	4,000	3,637	1,787
Contracted Services	750	3,251	5,177
Audit	925	925	525
Repairs and Maintenance	16,000	10,648	21,761
Equipment Rental	18,750	18,929	14,290
Insurance	400	473	207
Miscellaneous	200	145	705
Supplies	150	1,979	2,037
Total Expenditures	<u>\$ 50,575</u>	<u>\$ 48,614</u>	<u>\$ 53,143</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 15,465	\$ 10,324	\$ 4,019
<u>FUND BALANCE</u> - Beginning of Year	<u>61,287</u>	<u>61,287</u>	<u>57,268</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 76,752</u>	<u>\$ 71,611</u>	<u>\$ 61,287</u>

CITY OF LAKE CITY, MICHIGAN

LOCAL STREET FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 39,596	\$ 30,045
Taxes Receivable	4,169	4,823
Accounts Receivable	0	1,346
Due from Other Funds	5,600	1,662
Due from Other Governments	4,913	4,960
Prepaid Expenditures	38	41
TOTAL ASSETS	<u>\$ 54,316</u>	<u>\$ 42,877</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 1,952	\$ 1,230
Accrued Expenditures	218	380
Due to Other Funds	0	2,416
Deferred Revenue	104	528
Total Liabilities	<u>\$ 2,274</u>	<u>\$ 4,554</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 38	\$ 41
Unreserved		
Designated for Street Improvements	52,004	38,282
Total Fund Balance	<u>\$ 52,042</u>	<u>\$ 38,323</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 54,316</u>	<u>\$ 42,877</u>

CITY OF LAKE CITY, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 29,045	\$ 30,085	\$ 30,051
State Grants	28,000	27,081	29,096
Interest	100	131	104
Other Revenue	0	0	2,295
Total Revenues	<u>\$ 57,145</u>	<u>\$ 57,297</u>	<u>\$ 61,546</u>
<u>EXPENDITURES</u>			
Public Works			
Personal Services	\$ 7,710	\$ 6,415	\$ 7,468
Health and Life Insurance	2,800	2,768	2,096
Audit	525	525	525
Contracted Services	3,500	9,379	7,833
Repairs and Maintenance	15,000	5,387	56,142
Equipment Rental	15,000	16,982	18,038
Insurance	420	583	213
Supplies	500	1,500	2,029
Miscellaneous	75	39	25
Total Expenditures	<u>\$ 45,530</u>	<u>\$ 43,578</u>	<u>\$ 94,369</u>
Excess (Deficiency) of Revenues			
Over Expenditures	\$ 11,615	\$ 13,719	\$ (32,823)
<u>FUND BALANCE</u> - Beginning of Year	<u>38,323</u>	<u>38,323</u>	<u>71,146</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 49,938</u>	<u>\$ 52,042</u>	<u>\$ 38,323</u>

MAJOR PROPRIETARY FUNDS

Water and Sewer Funds

The Water and Sewer Funds account for the provision of water and sewer services to the residents of the City and certain adjacent areas. All activities related to such services are accounted for in the water and sewer system funds which are generally self-supporting. Primary financing is provided through user-charges.

CITY OF LAKE CITY, MICHIGAN

WATER FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

<u>ASSETS</u>	2006	2005
<u>CURRENT ASSETS</u>		
Cash	\$ 70,487	\$ 73,916
Accounts Receivable	6,325	6,942
Inventory	28,079	32,632
Due from Other Funds	36	0
Prepaid Expense	1,038	1,211
Total Current Assets	\$ 105,965	\$ 114,701
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	\$ 77,910	\$ 77,020
Special Assessments Receivable	9,941	10,554
Total Restricted Assets	\$ 87,851	\$ 87,574
<u>CAPITAL ASSETS</u>		
Water Wells, Distribution System and Equipment	\$ 1,129,802	\$ 1,093,070
Less Accumulated Depreciation	(515,468)	(492,259)
Net Capital Assets	\$ 614,334	\$ 600,811
Total Noncurrent Assets	\$ 702,185	\$ 688,385
TOTAL ASSETS	\$ 808,150	\$ 803,086
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 40,355	\$ 5,440
Accrued Expenses	1,781	1,018
Total Current Liabilities	\$ 42,136	\$ 6,458
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 614,334	\$ 600,811
Restricted for Improvements	87,851	87,574
Unrestricted	63,829	108,243
Total Net Assets	\$ 766,014	\$ 796,628
TOTAL LIABILITIES AND NET ASSETS	\$ 808,150	\$ 803,086

CITY OF LAKE CITY, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 101,683	\$ 103,464
Hydrant Rental	8,400	8,400
Water Tower Rental	8,561	7,303
Other Revenue	0	228
	<hr/>	<hr/>
Total Operating Revenues	\$ 118,644	\$ 119,395
	<hr/>	<hr/>
<u>OPERATING EXPENSES</u>		
Personal Services	\$ 37,276	\$ 29,958
Retirement	2,000	2,000
Health Insurance	9,376	8,561
Uniforms	135	205
Supplies	7,306	3,123
Legal Advertisements	379	285
Contracted Services	7,790	1,512
Audit and Accounting Fees	1,000	1,000
Utilities	25,162	21,790
Repairs and Maintenance	7,969	3,885
Laboratory Analysis	7,389	9,759
Equipment Rental	13,077	5,035
Insurance	8,186	9,282
Continuing Education	280	350
Dues	302	971
Depreciation	23,209	23,556
	<hr/>	<hr/>
Total Operating Expenses	\$ 150,836	\$ 121,272
	<hr/>	<hr/>
Operating Income (Loss)	\$ (32,192)	\$ (1,877)
	<hr/>	<hr/>

CITY OF LAKE CITY, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest on Investments	\$ 1,248	\$ 788
Interest on Special Assessments	330	193
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 1,578	\$ 981
	<hr/>	<hr/>
Change in Net Assets	\$ (30,614)	\$ (896)
	<hr/>	<hr/>
<u>TOTAL NET ASSETS</u> - Beginning of Year	796,628	797,524
	<hr/>	<hr/>
<u>TOTAL NET ASSETS</u> - End of Year	<u>\$ 766,014</u>	<u>\$ 796,628</u>

CITY OF LAKE CITY, MICHIGAN
WATER FUND
COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 118,608	\$ 116,043
Cash Payments to Suppliers for Goods and Services	(50,093)	(64,600)
Cash Payments to Employees for Services	(36,513)	(29,823)
Other Operating Revenue	0	228
	<hr/>	<hr/>
Net Cash Provided (Used) for Operating Activities	\$ 32,002	\$ 21,848
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Collections of Special Assessments	\$ 613	\$ 1,893
Acquisitions and Construction of Capital Assets	(36,732)	(4,021)
	<hr/>	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (36,119)	\$ (2,128)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest on Investments	\$ 1,248	\$ 788
Interest on Special Assessments	330	193
	<hr/>	<hr/>
Net Cash Provided (Used) by Investing Activities	\$ 1,578	\$ 981
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (2,539)	\$ 20,701
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<hr/> 150,936	<hr/> 130,235
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<hr/> <u>\$ 148,397</u>	<hr/> <u>\$ 150,936</u>

CITY OF LAKE CITY, MICHIGAN
WATER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ (32,192)	\$ (1,877)
Adjustments to reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 23,209	\$ 23,556
(Increase) Decrease in Current Assets		
Accounts Receivable	617	1,571
Due from Other Funds	(36)	426
Inventory	4,553	0
Prepaid Expense	173	(27)
Increase (Decrease) in Current Liabilities		
Accounts Payable	34,915	1,614
Other Accrued Expenses	763	135
Due to Other Funds	0	(3,550)
Total Adjustments	<u>\$ 64,194</u>	<u>\$ 23,725</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 32,002</u></u>	<u><u>\$ 21,848</u></u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 140,770	\$ 93,991
Accounts Receivable	12,296	9,925
Due from Other Funds	2,455	24,787
Prepaid Expense	1,368	1,293
Total Current Assets	<u>\$ 156,889</u>	<u>\$ 129,996</u>
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	\$ 126,438	\$ 76,886
Special Assessments Receivable	65,967	90,644
Total Restricted Assets	<u>\$ 192,405</u>	<u>\$ 167,530</u>
<u>CAPITAL ASSETS</u>		
Equipment and Vehicles	\$ 222,837	\$ 192,363
Collection and Treatment System	1,761,113	1,761,113
Less Accumulated Depreciation	<u>(805,851)</u>	<u>(758,946)</u>
Net Capital Assets	<u>\$ 1,178,099</u>	<u>\$ 1,194,530</u>
Total Noncurrent Assets	<u>\$ 1,370,504</u>	<u>\$ 1,362,060</u>
TOTAL ASSETS	<u><u>\$ 1,527,393</u></u>	<u><u>\$ 1,492,056</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 4,270	\$ 6,092
Accrued Expenses	2,323	1,661
Total Liabilities	<u>\$ 6,593</u>	<u>\$ 7,753</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 1,178,099	\$ 1,194,530
Restricted for Improvements	192,405	167,530
Unrestricted	<u>150,296</u>	<u>122,243</u>
Total Net Assets	<u>\$ 1,520,800</u>	<u>\$ 1,484,303</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,527,393</u></u>	<u><u>\$ 1,492,056</u></u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Charges for Services and Connection Fees	\$ 192,067	\$ 152,578
<u>OPERATING EXPENSES</u>		
Personal Services	\$ 52,952	\$ 48,888
Retirement	3,000	2,000
Health Insurance	12,449	8,425
Uniforms	1,953	351
Supplies	921	3,686
Contracted Services	3,196	1,280
Audit and Accounting Fees	1,000	1,000
Utilities	20,325	19,950
Repairs and Maintenance	15,486	28,222
Laboratory Analysis	5,288	5,480
Equipment Rental	1,039	1,468
Insurance	10,302	9,503
Dues	4,046	7,619
Miscellaneous	2,141	2,969
Depreciation	46,905	46,843
Total Operating Expenses	<u>\$ 181,003</u>	<u>\$ 187,684</u>
Operating Income (Loss)	<u>\$ 11,064</u>	<u>\$ (35,106)</u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest on Investments	\$ 1,302	\$ 859
Interest on Special Assessments	10,592	10,854
Other Revenue	224	4,432
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 12,118	\$ 16,145
	<hr/>	<hr/>
Income (Loss) Before Capital Contributions	\$ 23,182	\$ (18,961)
	<hr/>	<hr/>
<u>CAPITAL CONTRIBUTIONS</u>		
Contributions from Local Units - Sewer Debt	13,315	0
	<hr/>	<hr/>
Change in Net Assets	\$ 36,497	\$ (18,961)
	<hr/>	<hr/>
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>1,484,303</u>	<u>1,503,264</u>
	<hr/>	<hr/>
<u>TOTAL NET ASSETS - End of Year</u>	<u>\$ 1,520,800</u>	<u>\$ 1,484,303</u>

CITY OF LAKE CITY, MICHIGAN
SEWER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 212,028	\$ 151,256
Cash Payments to Suppliers for Goods and Services	(83,043)	(100,999)
Cash Payments to Employees for Services	(52,290)	(48,660)
	<u>\$ 76,695</u>	<u>\$ 1,597</u>
Cash Flows from Capital and Related Financing Activities:		
Collections of Special Assessments	\$ 24,677	\$ 19,712
Acquisitions and Construction of Capital Assets	(30,474)	(1,077)
Contributions from Local Units	13,315	0
Other Revenue Received	224	4,432
	<u>\$ 7,742</u>	<u>\$ 23,067</u>
Cash Flows from Investing Activities:		
Interest on Investments	\$ 1,302	\$ 859
Interest on Special Assessments	10,592	10,854
	<u>\$ 11,894</u>	<u>\$ 11,713</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 96,331	\$ 36,377
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>170,877</u>	<u>134,500</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 267,208</u>	<u>\$ 170,877</u>

CITY OF LAKE CITY, MICHIGAN
SEWER FUND
COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 11,064	\$ (35,106)
Adjustments to reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 46,905	\$ 46,843
(Increase) Decrease in Current Assets		
Accounts Receivable	(2,371)	4,891
Due from Other Funds	22,332	(6,213)
Prepaid Expense	(75)	15
Increase (Decrease) in Current Liabilities		
Accounts Payable	(1,822)	(5,567)
Other Accrued Expenses	662	228
Due to Other Funds	0	(3,494)
Total Adjustments	<u>\$ 65,631</u>	<u>\$ 36,703</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 76,695</u>	<u>\$ 1,597</u>

CITY OF LAKE CITY, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

COMBINING BALANCE SHEET

MARCH 31, 2006

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	TOTALS
<u>ASSETS</u>			
Cash	\$ 106,494	\$ 0	\$ 106,494
Taxes Receivable	6,949	0	6,949
Due from Other Funds	7,300	0	7,300
Prepaid Expenditures	257	0	257
	<hr/>		
TOTAL ASSETS	\$ 121,000	\$ 0	\$ 121,000
<hr/>			
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 697	\$ 0	\$ 697
Accrued Expenditures	294	0	294
Deferred Revenues	174	0	174
	<hr/>		
Total Liabilities	\$ 1,165	\$ 0	\$ 1,165
<hr/>			
<u>FUND BALANCE</u>			
Reserved for:			
Prepaid Expenditures	\$ 257	\$ 0	\$ 257
Unreserved:			
Designated for:			
Fire Protection	49,594	0	49,594
Law Enforcement	45,867	0	45,867
Undesignated	24,117	0	24,117
	<hr/>		
Total Fund Balance	\$ 119,835	\$ 0	\$ 119,835
	<hr/>		
TOTAL LIABILITIES AND FUND BALANCE	\$ 121,000	\$ 0	\$ 121,000
	<hr/>		

CITY OF LAKE CITY, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2006

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	TOTALS
<u>REVENUES</u>			
Taxes and Special Assessments	\$ 49,835	\$ 14,913	\$ 64,748
State Grants	2,323	0	2,323
Charges for Services	19,355	0	19,355
Interest and Rents	261	39	300
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 71,774	\$ 14,952	\$ 86,726
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES</u>			
General Government	\$ 39,375	\$ 0	\$ 39,375
Public Safety	36,758	0	36,758
Intergovernmental Expenditures	\$ 0	13,315	13,315
Debt Service	0	1	1
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 76,133	\$ 13,316	\$ 89,449
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ (4,359)	\$ 1,636	\$ (2,723)
	<hr/>	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			
General Fund	7,000	0	7,000
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	\$ 2,641	\$ 1,636	\$ 4,277
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCES</u> - Beginning of Year	117,194	(1,636)	115,558
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCES</u> - End of Year	\$ 119,835	\$ 0	\$ 119,835
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NONMAJOR SPECIAL REVENUE FUNDS

FIRE FUND

The Fire Fund accounts for revenue set aside for the purpose of providing fire protection services.

LAW FUND

The Law Fund accounts for revenue set aside for law enforcement.

CEMETERY FUND

The Cemetery Fund accounts for revenue set aside for the purpose of providing cemetery services for City residents.

CITY OF LAKE CITY, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

MARCH 31, 2006

	<u>ASSETS</u>	<u>FIRE</u>	<u>LAW</u>	<u>CEMETERY</u>	<u>TOTALS</u>
Cash		\$ 42,469	\$ 43,215	\$ 20,810	\$ 106,494
Taxes Receivable		3,474	1,390	2,085	6,949
Due from Other Funds		3,738	1,418	2,144	7,300
Prepaid Expenditures		0	17	240	257
TOTAL ASSETS		<u>\$ 49,681</u>	<u>\$ 46,040</u>	<u>\$ 25,279</u>	<u>\$ 121,000</u>
	<u>LIABILITIES AND FUND BALANCE</u>				
	<u>LIABILITIES</u>				
Accounts Payable		\$ 0	\$ 121	\$ 576	\$ 697
Accrued Expenditures		0	0	294	294
Deferred Revenue		87	35	52	174
Total Liabilities		<u>\$ 87</u>	<u>\$ 156</u>	<u>\$ 922</u>	<u>\$ 1,165</u>
	<u>FUND BALANCE</u>				
Reserved for Prepaid Expenditures		\$ 0	\$ 17	\$ 240	\$ 257
Unreserved		49,594	45,867	24,117	119,578
Total Fund Balance		<u>\$ 49,594</u>	<u>\$ 45,884</u>	<u>\$ 24,357</u>	<u>\$ 119,835</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 49,681</u>	<u>\$ 46,040</u>	<u>\$ 25,279</u>	<u>\$ 121,000</u>

CITY OF LAKE CITY, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2006

	FIRE	LAW	CEMETERY	TOTALS
<u>REVENUES</u>				
Taxes	\$ 24,478	\$ 10,141	\$ 15,216	\$ 49,835
State Grants	0	2,323	0	2,323
Charges for Services	0	0	19,355	19,355
Interest	108	125	28	261
Total Revenues	<u>\$ 24,586</u>	<u>\$ 12,589</u>	<u>\$ 34,599</u>	<u>\$ 71,774</u>
<u>EXPENDITURES</u>				
General Government	\$ 0	\$ 0	\$ 39,375	\$ 39,375
Public Safety	20,091	16,667	0	36,758
Total Expenditures	<u>\$ 20,091</u>	<u>\$ 16,667</u>	<u>\$ 39,375</u>	<u>\$ 76,133</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 4,495	\$ (4,078)	\$ (4,776)	\$ (4,359)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer In				
General Fund	<u>0</u>	<u>0</u>	<u>7,000</u>	<u>7,000</u>
Net Change in Fund Balance	4,495	(4,078)	2,224	2,641
<u>FUND BALANCE</u> - Beginning of Year	<u>45,099</u>	<u>49,962</u>	<u>22,133</u>	<u>117,194</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 49,594</u>	<u>\$ 45,884</u>	<u>\$ 24,357</u>	<u>\$ 119,835</u>

CITY OF LAKE CITY, MICHIGAN

FIRE FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 42,469	\$ 41,163
Taxes Receivable	3,474	4,019
Due from Other Funds	3,738	357
TOTAL ASSETS	<u>\$ 49,681</u>	<u>\$ 45,539</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Deferred Revenue	\$ 87	\$ 440
<u>FUND BALANCE</u>		
Unreserved		
Designated for Fire Protection	49,594	45,099
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 49,681</u>	<u>\$ 45,539</u>

CITY OF LAKE CITY, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 23,550	\$ 24,478	\$ 25,042
Interest	75	108	100
Other	800	0	0
Total Revenues	\$ 24,425	\$ 24,586	\$ 25,142
<u>EXPENDITURES</u>			
Public Safety			
Contracted Services	\$ 0	\$ 750	\$ 1,620
Hydrant Rental	8,400	8,400	8,400
Audit	450	450	450
Miscellaneous	800	2	0
Aid to Other Governments	11,000	10,489	15,072
Total Expenditures	\$ 20,650	\$ 20,091	\$ 25,542
Excess (Deficiency) of Revenues Over Expenditures	\$ 3,775	\$ 4,495	\$ (400)
<u>FUND BALANCE</u> - Beginning of Year	45,099	45,099	45,499
<u>FUND BALANCE</u> - End of Year	\$ 48,874	\$ 49,594	\$ 45,099

CITY OF LAKE CITY, MICHIGAN

LAW FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2006	2005
<hr/>		
<u>ASSETS</u>		
Cash	\$ 43,215	\$ 48,518
Taxes Receivable	1,390	1,608
Due from Other Funds	1,418	131
Prepaid Expenditures	17	0
	<hr/>	
TOTAL ASSETS	\$ 46,040	\$ 50,257
	<hr/>	
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 121	\$ 119
Deferred Revenue	35	176
	<hr/>	
Total Liabilities	\$ 156	\$ 295
	<hr/>	
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 17	\$ 0
Unreserved		
Designated for Law Enforcement	45,867	49,962
	<hr/>	
Total Fund Balance	\$ 45,884	\$ 49,962
	<hr/>	
TOTAL LIABILITIES AND FUND BALANCE	\$ 46,040	\$ 50,257
	<hr/>	

CITY OF LAKE CITY, MICHIGAN

LAW FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 9,812	\$ 10,141	\$ 10,017
State Grants	2,300	2,323	2,298
Interest	100	125	72
Total Revenues	\$ 12,212	\$ 12,589	\$ 12,387
<u>EXPENDITURES</u>			
Public Safety			
Personal Services	\$ 1,075	\$ 860	\$ 1,729
Health and Life Insurance	700	684	421
Contracted Services	14,500	14,282	3,145
Supplies	100	136	381
Audit	500	500	500
Equipment Rentals	150	117	484
Insurance	100	86	20
Miscellaneous	50	2	5
Total Expenditures	\$ 17,175	\$ 16,667	\$ 6,685
Excess (Deficiency) of Revenues Over Expenditures	\$ (4,963)	\$ (4,078)	\$ 5,702
<u>FUND BALANCE</u> - Beginning of Year	49,962	49,962	44,260
<u>FUND BALANCE</u> - End of Year	\$ 44,999	\$ 45,884	\$ 49,962

CITY OF LAKE CITY, MICHIGAN

CEMETERY FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2006	2005
<hr/>		
<u>ASSETS</u>		
Cash	\$ 20,810	\$ 22,842
Taxes Receivable	2,085	2,412
Due from Other Funds	2,144	196
Prepaid Expenditures	240	188
<hr/>		
TOTAL ASSETS	\$ 25,279	\$ 25,638
<hr/>		
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 576	\$ 2,953
Accrued Expenditures	294	288
Deferred Revenue	52	264
<hr/>		
Total Liabilities	\$ 922	\$ 3,505
<hr/>		
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	\$ 240	\$ 188
Unreserved	24,117	21,945
<hr/>		
Total Fund Balance	\$ 24,357	\$ 22,133
<hr/>		
TOTAL LIABILITIES AND FUND BALANCE	\$ 25,279	\$ 25,638
<hr/>		

CITY OF LAKE CITY, MICHIGAN

CEMETERY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 14,718	\$ 15,216	\$ 15,025
Charges for Services	15,000	19,355	20,260
Interest	10	28	35
Total Revenues	<u>\$ 29,728</u>	<u>\$ 34,599</u>	<u>\$ 35,320</u>
<u>EXPENDITURES</u>			
General Government			
Personal Services	\$ 18,500	\$ 17,206	\$ 14,843
Health and Life Insurance	9,956	10,484	10,556
Uniforms	200	100	108
Supplies	100	170	804
Contracted Services	1,000	1,191	4,010
Audit	450	450	450
Utilities	200	338	112
Gas and Oil	1,200	1,132	0
Repairs and Maintenance	2,200	2,501	1,213
Equipment Rentals	4,900	4,102	4,075
General Insurance	1,500	1,645	1,227
Miscellaneous	150	56	106
Total Expenditures	<u>\$ 40,356</u>	<u>\$ 39,375</u>	<u>\$ 37,504</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (10,628)	\$ (4,776)	\$ (2,184)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In			
General Fund	<u>7,000</u>	<u>7,000</u>	<u>0</u>
Net Change in Fund Balance	\$ (3,628)	\$ 2,224	\$ (2,184)
<u>FUND BALANCE - Beginning of Year</u>	<u>22,133</u>	<u>22,133</u>	<u>24,317</u>
<u>FUND BALANCE - End of Year</u>	<u>\$ 18,505</u>	<u>\$ 24,357</u>	<u>\$ 22,133</u>

NONMAJOR DEBT SERVICE FUNDS

TRANSPORTATION DEBT RETIREMENT FUND

The Transportation Debt Retirement Fund accounts for the accumulation of resources for, and the payment of the 1995 Michigan Transportation Fund Bonds principal, interest and related costs.

1997 SANITARY DRAIN DEBT RETIREMENT FUND

The 1997 Sanitary Drain Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of the 1997 Sanitary Drain Fund Bonds, principal, interest and related costs.

CITY OF LAKE CITY, MICHIGAN

DEBT SERVICE FUNDS
COMBINING BALANCE SHEET

MARCH 31, 2006
WITH COMPARATIVE TOTALS FOR MARCH 31, 2005

	TRANSPORTATION DEBT RETIREMENT FUND		1997 SANITARY DRAIN DEBT RETIREMENT FUND		TOTALS	
					2006	2005
<u>ASSETS</u>						
Cash	\$	0	\$	0	\$ 0	\$ 12,797
Accounts Receivable		0		0	0	4,341
TOTAL ASSETS	\$	0	\$	0	\$ 0	\$ 17,138
<u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Due to Other Governments	\$	0	\$	0	\$ 0	\$ 18,774
<u>FUND BALANCE</u>						
Reserved for Debt Service		0		0	0	(1,636)
TOTAL LIABILITIES AND FUND BALANCE	\$	0	\$	0	\$ 0	\$ 17,138

CITY OF LAKE CITY, MICHIGAN

DEBT SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED MARCH 31, 2005

	TRANSPORTATION DEBT RETIREMENT FUND	1997 SANITARY DRAIN DEBT RETIREMENT FUND	TOTALS	
			2006	2005
<u>REVENUES</u>				
Special Assessments	\$ 0	\$ 14,913	\$ 14,913	\$ 60,199
Interest	0	39	39	87
Total Revenues	\$ 0	\$ 14,952	\$ 14,952	\$ 60,286
<u>EXPENDITURES</u>				
Intergovernmental Expenditures				
Public Works	\$ 0	\$ 13,315	\$ 13,315	\$ 0
Debt Service				
Principal Retirement	0	0	0	170,000
Interest and Fiscal Charges	1	0	1	9,591
Miscellaneous	0	0	0	0
Total Expenditures	\$ 1	\$ 13,315	\$ 13,316	\$ 179,591
Excess (Deficiency) of Revenues Over Expenditures	\$ (1)	\$ 1,637	\$ 1,636	\$ (119,305)
<u>FUND BALANCE - Beginning of Year</u>	1	(1,637)	(1,636)	117,669
<u>FUND BALANCE - End of Year</u>	\$ 0	\$ 0	\$ 0	\$ (1,636)

CITY OF LAKE CITY, MICHIGAN

TRANSPORTATION DEBT RETIREMENT FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	<u>\$ 0</u>	<u>\$ 1</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Reserved for Debt Service	<u>0</u>	<u>1</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 0</u>	<u>\$ 1</u>

CITY OF LAKE CITY, MICHIGAN

TRANSPORTATION DEBT RETIREMENT FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>EXPENDITURES</u>		
Debt Service		
Interest and Fiscal Charges	<u>1</u>	<u>0</u>
Total Expenditures	<u>\$ 1</u>	<u>\$ 0</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (1)	\$ 0
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In - Major Street	<u>0</u>	<u>0</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	\$ (1)	\$ 0
<u>FUND BALANCE</u> - Beginning of Year	<u>1</u>	<u>1</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 0</u>	<u>\$ 1</u>

CITY OF LAKE CITY, MICHIGAN

1997 SANITARY DRAIN DEBT RETIREMENT FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 0	\$ 12,796
Accounts Receivable	0	4,341
TOTAL ASSETS	<u>\$ 0</u>	<u>\$ 17,137</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 0	\$ 18,774
<u>FUND BALANCE</u>		
Reserved for Debt Service	0	(1,637)
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 0</u>	<u>\$ 17,137</u>

CITY OF LAKE CITY, MICHIGAN

1997 SANITARY DRAIN DEBT RETIREMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31,

	2006	2005
<u>REVENUES</u>		
Assessments to Users	\$ 14,913	\$ 60,199
Interest	39	87
Total Revenues	<u>\$ 14,952</u>	<u>\$ 60,286</u>
<u>EXPENDITURES</u>		
Intergovernmental Expenditures		
Public Works	\$ 13,315	\$ 0
Debt Service		
Principal Retirement	0	170,000
Interest and Fiscal Charges	0	9,591
Total Expenditures	<u>\$ 13,315</u>	<u>\$ 179,591</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,637	\$ (119,305)
<u>FUND BALANCE</u> - Beginning of Year	<u>(1,637)</u>	<u>117,668</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 0</u>	<u>\$ (1,637)</u>

INTERNAL SERVICE FUND

EQUIPMENT FUND

The Equipment Fund accounts for the rental of equipment to other departments and related costs.

CITY OF LAKE CITY, MICHIGAN

EQUIPMENT FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 199,733	\$ 182,384
Due from Other Funds	6	0
Prepaid Insurance	1,195	1,229
Total Current Assets	\$ 200,934	\$ 183,613
<u>NONCURRENT ASSETS</u>		
<u>CAPITAL ASSETS</u>		
Equipment	\$ 373,234	\$ 351,741
Less Accumulated Depreciation	(260,866)	(250,077)
Net Capital Assets	\$ 112,368	\$ 101,664
TOTAL ASSETS	<u>\$ 313,302</u>	<u>\$ 285,277</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 1,353	\$ 2,347
Accrued Expenses	316	221
TOTAL LIABILITIES	<u>\$ 1,669</u>	<u>\$ 2,568</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 112,368	\$ 101,664
Unrestricted	199,265	181,045
TOTAL NET ASSETS	<u>\$ 311,633</u>	<u>\$ 282,709</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 313,302</u>	<u>\$ 285,277</u>

CITY OF LAKE CITY, MICHIGAN

EQUIPMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Charges for Services		
Equipment Rental	\$ 82,786	\$ 69,178
Other Revenue	28	516
Total Operating Revenues	<u>\$ 82,814</u>	<u>\$ 69,694</u>
<u>OPERATING EXPENSES</u>		
Personal Services	\$ 4,602	\$ 3,760
Health and Life Insurance	1,508	1,997
Supplies	519	372
Gasoline and Oil	8,298	3,770
Audit	500	500
Repairs and Maintenance	8,954	7,990
Insurance	10,062	9,990
Depreciation	26,189	24,434
Total Operating Expenses	<u>\$ 60,632</u>	<u>\$ 52,813</u>
Operating Income (Loss)	<u>\$ 22,182</u>	<u>\$ 16,881</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Gain on Sale of Assets	\$ 5,200	\$ 0
Interest Revenue	1,542	912
Total Nonoperating Revenues (Expenses)	<u>\$ 6,742</u>	<u>\$ 912</u>
Change in Net Assets	\$ 28,924	\$ 17,793
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>282,709</u>	<u>264,916</u>
<u>TOTAL NET ASSETS</u> - End of Year	<u><u>\$ 311,633</u></u>	<u><u>\$ 282,709</u></u>

CITY OF LAKE CITY, MICHIGAN

EQUIPMENT FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Interfund Services		
Provided and Used	\$ 82,780	\$ 69,753
Cash Payments to Suppliers for Goods and Services	(30,801)	(24,589)
Cash Payments to Employees for Services	(4,507)	(3,804)
Other Operating Revenue	28	516
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$ 47,500	\$ 41,876
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	\$ (36,893)	\$ 0
Proceeds from Sale of Capital Assets	5,200	0
	<hr/>	<hr/>
Net Cash Provided by Capital and Related Financing Activities	\$ (31,693)	\$ 0
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest on Investments	\$ 1,542	\$ 912
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 17,349	\$ 42,788
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	182,384	139,596
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 199,733	\$ 182,384
	<hr/>	<hr/>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u> <u>PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 22,182	\$ 16,881
	<hr/>	<hr/>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	\$ 26,189	\$ 24,434
(Increase) Decrease in Current Assets		
Due from Other Funds	(6)	59
Prepaid Insurance	34	(88)
Increase (Decrease) in Current Liabilities		
Accounts Payable	(994)	634
Accrued Expenses	95	(44)
Due to Other Funds	0	0
	<hr/>	<hr/>
Total Adjustments	\$ 25,318	\$ 24,995
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 47,500	\$ 41,876
	<hr/>	<hr/>

AGENCY FUNDS

TAX COLLECTION FUND

The Tax Collection Fund accounts for the collection and payment of property tax levies received by the City in an agency capacity.

PAYROLL FUND

The Payroll Fund accounts for payroll transactions of the City.

CITY OF LAKE CITY, MICHIGAN
AGENCY FUNDS

COMBINING BALANCE SHEET

MARCH 31, 2006
WITH COMPARATIVE TOTALS FOR MARCH 31, 2005

	TAX COLLECTION FUND	PAYROLL FUND	TOTALS	
			2006	2005
<u>ASSETS</u>				
Cash	\$ 334	\$ 1,646	\$ 1,980	\$ 13,098
Receivables				
Accounts Receivable	0	0	0	66
Taxes	0	0	0	0
Due from Other Funds	599	0	599	175
Due from Other Governments	327	0	327	90
TOTAL ASSETS	<u>\$ 1,260</u>	<u>\$ 1,646</u>	<u>\$ 2,906</u>	<u>\$ 13,429</u>
<u>LIABILITIES</u>				
Withholding Deductions and				
Accrued Expenses	\$ 0	\$ 1,600	\$ 1,600	\$ 54
Due to Other Governments	1,260	0	1,260	9,619
Due to Other Funds	0	46	46	3,756
TOTAL LIABILITIES	<u>\$ 1,260</u>	<u>\$ 1,646</u>	<u>\$ 2,906</u>	<u>\$ 13,429</u>

CITY OF LAKE CITY, MICHIGAN
AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2005

	BALANCE 4/1/2005	INCREASES	DECREASES	BALANCE 3/31/2006
<u>TOTAL - ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash	\$ 13,098	\$ 1,199,079	\$ 1,210,197	\$ 1,980
Receivables				
Accounts Receivable	66	3,666	3,732	0
Due from Other Funds	175	239,788	239,364	599
Due from Other Governments	90	237	0	327
TOTAL ASSETS	\$ 13,429	\$ 1,442,770	\$ 1,453,293	\$ 2,906
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 3,920	\$ 3,920	\$ 0
Withholding Deductions	54	57,569	56,023	1,600
Due to Other Governments	9,619	681,679	690,038	1,260
Due to Other Funds	3,756	229,844	233,554	46
TOTAL LIABILITIES	\$ 13,429	\$ 973,012	\$ 983,535	\$ 2,906

CITY OF LAKE CITY, MICHIGAN

TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2006

	BALANCE			BALANCE
	4/1/2005	INCREASES	DECREASES	3/31/2006
<u>ASSETS</u>				
Cash	\$ 12,897	\$ 917,358	\$ 929,921	\$ 334
Due from Other Governments	90	237	0	327
Due from Other Funds	0	599	0	599
TOTAL ASSETS	\$ 12,987	\$ 918,194	\$ 929,921	\$ 1,260
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 3,920	\$ 3,920	\$ 0
Due to Other Governments	9,619	681,679	690,038	1,260
Due to Other Funds	3,368	229,844	233,212	0
TOTAL LIABILITIES	\$ 12,987	\$ 915,443	\$ 927,170	\$ 1,260

CITY OF LAKE CITY, MICHIGAN

PAYROLL FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2006

	BALANCE			BALANCE
	4/1/2005	INCREASES	DECREASES	3/31/2006
<u>ASSETS</u>				
Cash	\$ 201	\$ 281,721	\$ 280,276	\$ 1,646
Accounts Receivable	66	3,666	3,732	0
Due from Other Funds	175	239,189	239,364	0
TOTAL ASSETS	\$ 442	\$ 524,576	\$ 523,372	\$ 1,646
<u>LIABILITIES</u>				
Withholding Deductions	\$ 54	\$ 57,569	\$ 56,023	\$ 1,600
Due to Other Funds	388	0	342	46
TOTAL LIABILITIES	\$ 442	\$ 57,569	\$ 56,365	\$ 1,646

COMPONENT UNITS

DOWNTOWN DEVELOPMENT AUTHORITY FUND

The Downtown Development Authority Fund is designed to assist in the economic growth of the central business district.

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND

The Downtown Development Authority 2000 Debt Retirement Fund accounts for the accumulation of resources to pay the 2000 DDA Bond principal and interest.

CITY OF LAKE CITY, MICHIGAN

COMPONENT UNITS
COMBINING BALANCE SHEET

MARCH 31, 2006
WITH COMPARATIVE TOTALS FOR MARCH 31, 2005

	DOWNTOWN DEVELOPMENT AUTHORITY FUND	DOWNTOWN DEVELOPMENT AUTHORITY DEBT RETIREMENT FUND	TOTALS	
			2006	2005
<u>ASSETS</u>				
<u>ASSETS</u>				
Cash	\$ 122,231	\$ 0	\$ 122,231	\$ 112,457
Taxes Receivable	8,159	0	8,159	7,010
Due from Other Funds	0	1,230	1,230	1,230
Due from Other Governments	6,064	0	6,064	0
TOTAL ASSETS	<u>\$ 136,454</u>	<u>\$ 1,230</u>	<u>\$ 137,684</u>	<u>\$ 120,697</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Due to Other Funds	\$ 1,230	\$ 0	\$ 1,230	\$ 1,230
Due to Other Governments	327	0	327	90
Deferred Revenue	0	0	0	946
Total Liabilities	<u>\$ 1,557</u>	<u>\$ 0</u>	<u>\$ 1,557</u>	<u>\$ 2,266</u>
<u>FUND BALANCE</u>				
Reserved	\$ 0	\$ 1,230	\$ 1,230	\$ 1,230
Unreserved	134,897	0	134,897	117,201
Total Fund Balance	<u>\$ 134,897</u>	<u>\$ 1,230</u>	<u>\$ 136,127</u>	<u>\$ 118,431</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 136,454</u>	<u>\$ 1,230</u>	<u>\$ 137,684</u>	<u>\$ 120,697</u>

CITY OF LAKE CITY, MICHIGAN

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED MARCH 31, 2005

	DOWNTOWN DEVELOPMENT AUTHORITY FUND	DOWNTOWN DEVELOPMENT AUTHORITY DEBT RETIREMENT FUND	TOTALS	
			2006	2005
<u>REVENUES</u>				
Taxes	\$ 54,148	\$ 0	\$ 54,148	\$ 49,690
Interest	583	0	583	295
Total Revenues	\$ 54,731	\$ 0	\$ 54,731	\$ 49,985
<u>EXPENDITURES</u>				
Economic Development	\$ 1,120	\$ 0	\$ 1,120	\$ 395
Debt Service				
Principal	0	20,000	20,000	15,000
Interest	0	15,915	15,915	16,839
Total Expenditures	\$ 1,120	\$ 35,915	\$ 37,035	\$ 32,234
Excess (Deficiency) of Revenues Over Expenditures	\$ 53,611	\$ (35,915)	\$ 17,696	\$ 17,751
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	\$ 0	\$ 35,915	\$ 35,915	\$ 31,839
Transfers Out	(35,915)	0	(35,915)	(31,839)
Total Other Financing Sources (Uses)	\$ (35,915)	\$ 35,915	\$ 0	\$ 0
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Sources (Uses)	\$ 17,696	\$ 0	\$ 17,696	\$ 17,751
<u>FUND BALANCE</u> - Beginning of Year	117,201	1,230	118,431	100,680
<u>FUND BALANCE</u> - End of Year	\$ 134,897	\$ 1,230	\$ 136,127	\$ 118,431

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 122,231	\$ 112,457
Taxes Receivable	8,159	7,010
Due from Other Governments	6,064	0
TOTAL ASSETS	<u>\$ 136,454</u>	<u>\$ 119,467</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 1,230	\$ 1,230
Due to Other Governments	327	90
Deferred Revenue	0	946
Total Liabilities	\$ 1,557	\$ 2,266
<u>FUND BALANCE</u>		
Unreserved	134,897	117,201
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 136,454</u>	<u>\$ 119,467</u>

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31,

	2006	2005
<u>REVENUES</u>		
Taxes	\$ 54,148	\$ 49,690
Interest	583	295
Total Revenues	\$ 54,731	\$ 49,985
<u>EXPENDITURES</u>		
Economic Development		
Improvements/Repairs and Maintenance	\$ 1,120	\$ 0
Miscellaneous	0	395
Total Expenditures	\$ 1,120	\$ 395
Excess (Deficiency) of Revenues Over Expenditures	\$ 53,611	\$ 49,590
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers (Out)	(35,915)	(31,839)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	\$ 17,696	\$ 17,751
<u>FUND BALANCE</u> - Beginning of Year	117,201	99,450
<u>FUND BALANCE</u> - End of Year	\$ 134,897	\$ 117,201

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Due from Other Funds	\$ 1,230	\$ 1,230
Due from Other Governments	0	0
TOTAL ASSETS	<u>\$ 1,230</u>	<u>\$ 1,230</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Reserved for Debt Service	<u>1,230</u>	<u>1,230</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,230</u>	<u>\$ 1,230</u>

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>EXPENDITURES</u>		
Debt Retirement		
Principal	\$ 20,000	\$ 15,000
Interest on Bonded Debt	15,915	16,839
	<u>35,915</u>	<u>31,839</u>
Total Expenditures	<u>\$ 35,915</u>	<u>\$ 31,839</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (35,915)	\$ (31,839)
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In	<u>35,915</u>	<u>31,839</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	\$ 0	\$ 0
<u>FUND BALANCE</u> - Beginning of Year	<u>1,230</u>	<u>1,230</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 1,230</u>	<u>\$ 1,230</u>

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT SERIES 2000 BONDS PAYABLE

MARCH 31, 2006

<u>DATE OF ISSUE</u>	May 1, 2000	
<u>AMOUNT OF ISSUE</u>		\$ 350,000
<u>AMOUNT REDEEMED</u>		
Prior Years	\$ 55,000	
Current Year	<u>20,000</u>	<u>75,000</u>
<u>BALANCE OUTSTANDING</u> - March 31, 2006		<u>\$ 275,000</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
May 1, 2006	5.35 %	\$ 20,000	\$ 7,693	\$ 27,693
November 1, 2006			7,158	7,158
May 1, 2007	5.40 %	20,000	7,158	27,158
November 1, 2007			6,618	6,618
May 1, 2008	5.45 %	25,000	6,618	31,618
November 1, 2008			5,936	5,936
May 1, 2009	5.50 %	25,000	5,936	30,936
November 1, 2009			5,249	5,249
May 1, 2010	5.55 %	25,000	5,249	30,249
November 1, 2010			4,555	4,555
May 1, 2011	5.60 %	30,000	4,555	34,555
November 1, 2011			3,715	3,715
May 1, 2012	5.65 %	30,000	3,715	33,715
November 1, 2012			2,868	2,868
May 1, 2013	5.70 %	30,000	2,868	32,868
November 1, 2013			2,013	2,013
May 1, 2014	5.75 %	35,000	2,013	37,013
November 1, 2014			1,006	1,006
May 1, 2015	5.75 %	35,000	1,006	36,006
		<u>\$ 275,000</u>	<u>\$ 85,929</u>	<u>\$ 360,929</u>

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 15, 2006

City of Lake City
Lake City, Michigan

As a result of our audit of the basic financial statements of the City of Lake City for the year ended March 31, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the City:

Utility Billings and Assessments

Although the City continues to make improvements in the area of posting of utility receipts, in order to insure the correct posting of the payments, the accounts receivable subsidiary should be reconciled to the general ledger on a monthly basis.

Internal Controls

During the course of our audit of the basic financial statements of the City of Lake City, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements:

- (a) The relatively small number of people involved in the accounting functions of the City make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Council to establish a larger accounting staff in order to implement proper segregation of duties, and we note this item here only to maintain the City Council's awareness of this limitation in their internal controls.

(b) The City is not reconciling accounts receivable on a monthly basis.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above are material weaknesses.

We wish to express our appreciation for the cooperation and courtesy extended to our staff by the various municipal employees during the course of our audit of the basic financial statements of the City of Lake City. We would like to thank the Council for awarding our firm the audit engagement for the City. If there are any questions relative to the above comments and recommendations or any other areas of your annual accounting, please call on us.

Very truly yours,

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.